

STAKEHOLDER ORIENTATION AND ITS IMPACT
ON PERFORMANCE IN SMALL BUSINESSES

By

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CHAPTER I

INTRODUCTION

There has been much academic research in recent years devoted to the management of stakeholder relations (Donaldson & Preston, 1995; Hart, 1995; Jones, 1995; Jones & Wicks, 1999; Shane & Venkataraman, 2000); however, little research has been done on the related construct of stakeholder orientation (SO). SO has been defined as the strategic attention that an organization directs to the diverse interests of stakeholder groups such as customers, shareholders, and employees (Greenley & Foxall, 1997). The SO of a company is important because the strategic attention serves as a reference for management to interpret the role of various stakeholders and the organization's relationship to them. The lens of management within a firm regarding the organization's orientation will affect their view of the environment. For example, an organization that has a greater orientation toward customers will look at the environment relative to the perception of customers. Likewise, the same would be true of other stakeholder groups relative to the firm's orientation. The theoretical development of stakeholders has been well recognized (Donaldson & Preston, 1995; Freeman, 1984; Mitchell, Agle, & Wood, 1997), but only a handful of stakeholder orientation studies have been empirical in nature (Berman, Wicks, Kotha, & Jones, 1999; Greenley & Foxall, 1996; 1997; Greenley & Foxall, 1998). Even fewer studies have used a psychometrically developed scale for the measurement of SO (Yau et al., 2007). The first purpose of this study is to use such a

scale to examine how stakeholder orientation (SO) impacts the performance of small businesses.

SO may also have a different effect on small businesses than might be observed in large firms (Thompson & Smith, 1991). For example, small businesses by their very nature may rely more heavily on stakeholders to survive and later to prosper. The relationship between small business owners and stakeholders may be based more on personal relationships. However, little research has been done that examines how small, young firms relate to stakeholders (Perrini, Russo, & Tencati, 2007). Recent research has called for studies that re-direct the current emphasis on stakeholders in large corporations that may not be generalizable to the broader population of firms, to smaller organizations (Jenkins, 2004; Laura & Robert, 2003; Murillo & Lozano, 2006; Thompson et al., 1991).

A limitation of the current literature on SO concerns scale development of the construct. Previous empirical articles on SO by Berman et al. (1999), and Greenley and Foxall (1996, 1997, 1998) did not engage in scientific scale development for the measurement of various stakeholder dimensions. Recently, Yau et al. (2007) developed a reliable scale, but only tested it in the emerging markets of three large cities in China. They used small to large organizations that were either state-owned, private enterprises, or joint ventures. Yau et al. (2007) have taken the first step in developing a reliable and valid SO scale. To further advance an understanding of the impact of stakeholders on organizations, specifically small, young firms, there needs to be further research and testing to increase the generalizability of the SO scale. The second purpose of this dissertation is to explore how small business manager's stakeholder orientation affects performance in various organizational contexts. This research will be based on theories

developed in several areas of the management literature including stakeholder theory and resource dependency theory. The essential research question that this study will address is: How does stakeholder orientation relate to performance of small, young firms? A second research question addressed in this study: Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms?

Although stakeholders identified by big and small businesses will be the same, small businesses will likely have a different emphasis on specific stakeholders than those emphasized by large corporations, public institutions, or global organizations. Important stakeholders often have diverse interests and small businesses, with presumably fewer resources than larger organizations, will have to make strategic choices in the relationships they develop. They may only have the power to influence one specific stakeholder group, or may choose to divide their influence among multiple stakeholder groups. Likewise, the choice made by a small business to devote resources to one or many stakeholders, the subsequent relationships that are developed, and the associations with other stakeholders that are not nurtured may have varying effects on the performance of the small business (Murillo et al., 2006).

Stakeholder theory allows researchers to broaden their focus using a wider set of relationships among multiple stakeholders rather than depending only on an economic relationship. This has become fertile ground for a multi-faceted approach in management theory (Harrison & Freeman, 1999). One of the primary underpinnings of stakeholder theory suggests that firms are responsible to an array of stakeholders and that they should direct their efforts toward this array of stakeholders in a manner that best fits the

organization. The devotion of resources directed toward a specific array of stakeholders represents a unique stakeholder orientation for a particular firm. Stakeholder theory is the genesis of stakeholder orientation.

Stakeholder Theory Overview

Stakeholder theory has grown over the past fifty years from an occasional reference in the strategy literature to one of the primary theories of management (Harrison et al., 1999). The evolution of the theory can be traced from a vague acknowledgement of stakeholders of an organization in a book focused on business education and management's responsibilities (Abrams, 1954). Abrams (1954) spoke of the social responsibility of the corporation, as well as individual managers, rather than the imperialism of the nineteenth century corporation. He said the firm had a responsibility to maintain an equitable balance among interested groups, specifically mentioning not only stockholders, but also employees, customers, and the public. From this brief mention of responsibility of the firm beyond profits, stakeholder theory was first introduced as a minor reference in a book on corporate strategy (Ansoff, 1965). Ansoff (1965: 34) explains the theory as "balancing the conflicting claims of the various 'stakeholders' in the firm: managers, workers, stockholders, suppliers, vendors. The firm has a responsibility to all of these and must configure its objectives so as to give each a measure of satisfaction." Freeman (1984) added that managers need to satisfy a multitude of constituents that can influence organizational performance. Donaldson and Preston (1995) expanded stakeholder theory to include moral and ethical dimensions within the larger concept of corporate social responsibility. Hillman and Keim (2001a)

stated that corporate social performance (CSP) was a more appropriate title and separated stakeholder management from social issue participation. Social issue participation describes those aspects of a firm's performance that were outside a direct relationship to the primary stakeholders. For example, Freeman (1984) referred to stakeholders as those whose contributions are required for the survival of the organization and called this group primary stakeholders. Other groups that the organization was not dependent upon were secondary stakeholders. Clarkson (1995) further indicated that primary stakeholders are those that would accept risk by investing either human or financial capital into the organization. As the concept has been extended through the years, so also has the disagreement over the identification of stakeholders. This indicates that within such a rich template of stakeholders, there needs to be a more fine grained approach tailored to small businesses and a requirement for a more precise definition of stakeholders.

The literature also suggests that primary stakeholders are the market-driven ones, including customers, suppliers, employees, and investors (Post, Frederick, Lawrence, & Weber, 1996). Agle, Mitchell and Sonnenfeld (1999) agree with Waddock and Graves (1997b) that primary stakeholders are customers, employees, and shareholders, leaving out suppliers. Greenley and Foxall (1997) also agree that primary stakeholders are customers, employees, and shareholders but add competitors and unions. Lastly, Hillman and Keim (2001a) concur with the same three stakeholders (customers, employees, and shareholders) but add suppliers, community residents, and the natural environment. So there is some disagreement about primary and secondary stakeholders.

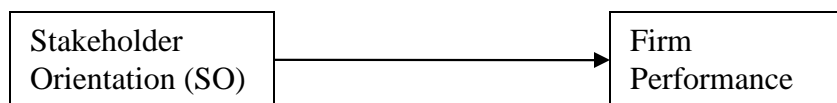
The literature also suggests secondary stakeholders have a more tangential effect on the firm, and their relationship is not one of direct consequence (Berman et al., 1999;

Post et al., 1996). Berman et al. (1999) included the community and the natural environment into their concept of secondary stakeholders, and Hillman and Keim (2001a) also thought the community as well as industry and government comprised secondary stakeholders. This research will address the issue of stakeholders, examine who they are in the environment of small, young firms, study how they are defined, and measure their effect on firm performance.

Conceptual Framework

The previous literature suggests that stakeholder orientation (SO) affects firm performance. The basic conceptual framework for this dissertation is depicted in Figure 1. As mentioned earlier, the association shown between SO and firm performance has seen little empirical examination in the stakeholder theory literature (Berman et al., 1999; Greenley et al., 1997, 1998; Yau et al., 2007).

Figure 1 – Framework for Studying the Stakeholder Orientation – Firm Performance Relationship



The rudimentary structure shown in Figure 1 will gain complexity as the multi-dimensionality of the SO construct is discussed. In addition to the dimensionality of SO, contextual factors will also be addressed. Contextual factors are important in stakeholder

theory to avoid the possibility of misleading inferences and to provide a more exact understanding of the relationship being studied. In this study, stakeholder theory is used to explain SO within the domain of small businesses. By specifying a unique domain and adding the appropriate contextual factors, this study will add to the understanding of how stakeholder theory relates to the complexity of organizational outcomes.

Earlier studies of SO have used various environmental measures (Greenley et al., 1996, 1997, 1998) as contextual factors. Previous research has theorized that small businesses should operate mindful of their external environment (Hsu, 2006). Covin and Slevin (1989) also found that small firms in a hostile environment perform better when they were cognizant of the dynamics within their environment. Although many other contextual factors could be examined that might offer further understanding of the model, it would be problematic to test all assumptions and paths in a single study. Thus, this study will focus on the organizational context, specifically environmental dynamism and munificence that have been used in previous studies of SO (Husted & Allen, 2007; Wheeler, Fabig, & Boele, 2002). The inclusion of these contextual factors will enhance understanding concerning their contribution to the performance of small businesses, as well as add to the explanatory powers of SO.

Contribution to the Literature

This dissertation makes contributions to current literature by addressing four important questions. First, does stakeholder orientation have an effect on performance for small, young firms? Second, is the stakeholder orientation – performance relationship contingent on the firm’s environmental dynamism? Third, is the stakeholder orientation

– performance relationship contingent on the firm’s environmental munificence? And fourth, is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms? Studies of small businesses in the strategic management literature are made more difficult by measurement issues (Chrisman & McMullan, 2002; Jackson, 2001; Spence, Schmidpeter, & Habisch, 2003; Straub, Limayem, & Karahannaevristo, 1995). The measurement issues may be confounded by contextual factors. Dynamism, the degree of difficulty in predicting external factors of the firm, and munificence, the abundance of resources available to support growth in the organization’s environment (Dess & Beard, 1984a), may play a role in the effect of SO on firm performance. Small business owners’ perception of the environment is key to decisions on the expenditure of scarce resources for stakeholder support (Husted et al., 2007). Thus, this study will add to the body of stakeholder orientation literature by introducing environmental dynamism and munificence as moderators.

In their discussion of limitations, Yau et al. (2007) stated that their study represented a cross-section of primarily large businesses in urban Chinese areas. This study proposes to examine the research questions in small businesses across multiple industries in Oklahoma, offering a different template for analysis of the SO scale. Yau et al. (2007) also offer as directions for future research the assessment of their SO scale in a developed economy, which is the setting for this dissertation. Finally, the knowledge gained from this study will certainly lead to more research questions establishing an agenda for future research.

Outline of Dissertation

The remaining chapters of this dissertation represent the detailed development of hypotheses, methodology, results and conclusions of this study. More specifically, Chapter II presents a review of the literature relating stakeholder orientation to firm performance, as well as an explanation of potential moderators of the relationship. Chapter III develops these concepts into a testable model of the effects of stakeholder orientation on the performance of small firms. This chapter also proposes specific hypotheses and methodology to be used in the study. The results of the study are presented in Chapter IV along with detailed findings and analysis. Chapter V presents the summary including limitations of the study and recommendations for future research.

CHAPTER II

REVIEW OF LITERATURE

Stakeholder orientation may be characterized by the strategic attention that an organization directs to the diverse interests of stakeholder groups (Greenley et al., 1997). In the vibrant small business environment, the strategic attention directed at specific stakeholder groups may have long-term effects on the performance of the firm.

Given the importance of stakeholders to an organization, it is not surprising that a growing body of research has developed. The first section of this chapter examines stakeholder orientation (SO) research and its origin from stakeholder theory, as well as the body of literature that has developed and defined stakeholders. Primary and secondary stakeholders are defined and identified, and findings about the primary stakeholders are explored in depth. The next section reviews the literature streams for organizational context through the lens of small businesses and stakeholder orientation. Environmental dynamism and environmental munificence are addressed specifically with regard to the small business context. Performance of small businesses is addressed and the issues of measurement in private organizations are examined. All constructs will be developed with an orientation toward their effect on the performance of small, young firms. After examining the theoretical underpinning of the constructs, a testable model is presented that will permit examination of the research questions. Therefore, to properly

frame this dissertation, Chapter II begins with the development of stakeholder orientation from its roots in stakeholder theory.

Stakeholder Theory

Greater knowledge of a firm and its environment has been the driving force behind the use of stakeholders as an approach to broaden the vision of management and their responsibilities beyond those of profit maximization (Mitchell et al., 1997).

Stakeholder theory has grown over the past fifty years from an occasional reference in the strategy literature to one of the primary theories of management (Harrison et al., 1999).

The theory advanced from a vague acknowledgement of stakeholders of an organization in a book focused on business education and management (Abrams, 1954). Abrams (1954) spoke of the social responsibility of the corporation and of the individual managers. He said the firm had a responsibility to maintain an equitable balance among interested groups, and Ansoff (1965) followed integrating the concept into corporate strategy. Ansoff explains the theory as “balancing the conflicting claims of the various ‘stakeholders’ in the firm: managers, workers, stockholders, suppliers, vendors” (1965: 34). The corporation should be held responsible to provide some satisfaction to each of the firm’s stakeholders.

The roles of both business and society had independently experienced growing numbers of outlets for academic articles since the 1970’s (Jones, 1995), but Preston (1975) challenged academics to develop a paradigm that would integrate the roles of both business and society. The stakeholder model introduced by Freeman (1984) was an attempt at assimilating both roles. Stakeholder theory was thought to be implicit in the

stakeholder model, but Freeman (1984) did not offer any testable theories. Several attempts at theory development were introduced (Brenner & Cochran, 1991; Hill & Jones, 1992), but these early works failed to recognize the complexity of the stakeholder model. Donaldson and Preston (1995) explained stakeholder theory as three different types of theory, normative, instrumental, and descriptive/empirical, all of which at various times have been discussed by Freeman and colleagues as being integrated into the stakeholder model (Evan & Freeman, 1993; Freeman & Gilbert, 1987; Freeman & Reed, 1983).

Definition and Tenets of Stakeholder Theory

Donaldson and Preston (1995) developed a taxonomy for stakeholder theory organized into normative, instrumental, and descriptive/empirical types. Type 1, normative stakeholder theory, describes the propriety of how firms should deal with stakeholders. Many researchers propose that firms should deal with stakeholders as an “ends” rather than a “means” (Clarkson, 1995; Evan et al., 1993; Goodpaster, 1991). A central tenet of this theory is that firms should be attentive to the needs of all stakeholders rather than stockholders alone (Jawahar & McLaughlin, 2001). In general, this theory describes what ‘should’ happen.

Type 2, instrumental theory is the second type of stakeholder theory in the taxonomy. Instrumental theory is concerned with what will happen if firms manage stakeholders in a certain way. A central tenet of this theory is that success in the marketplace is the goal of most firms and that stakeholder management is a “means” to that “end” (Jawahar et al., 2001). Instrumental theory is best expressed through the

integration of ethics and economics (Jones, 1995) between managers and stakeholders. If this integration is articulated through a spirit of cooperation and mutual trust, then these firms will establish a competitive advantage over other firms that do not contract with stakeholders (Jawahar et al., 2001). In general, this theory describes what happens “if?”

The final type of stakeholder theory, Type 3, is the descriptive/empirical type. The descriptive/empirical type of stakeholder theory was first introduced by Brenner and Cochran (1991) and concerns how managers or firms actually behave toward stakeholders. According to them, “the nature of an organization’s stakeholders, their values, their relative influence on decisions and the nature of the situation are all relevant information for predicting organizational behavior” (1991: 462). The literature was expanded when Clarkson (1995) found partial support for “managers that acted as if stakeholders mattered because of the intrinsic justice of their (stakeholders’) claims on the firm” (cf. Jawahar et al., 2001: 399). In general, this theory describes what actually happens and is the focus of this study.

Stakeholder theory has expanded the focus of researchers from a narrow set of relationships oriented toward firm economics to a broader set of relationships encompassing multiple stakeholders that has become the basis for a multifaceted area of management theory (Harrison et al., 1999). This broader set of relationships has come to be known as stakeholder orientation.

How Stakeholder Theory Leads to Stakeholder Orientation

Stakeholder theory was an attempt at altering the mold of the imperialistic nineteenth century corporation (Ansoff, 1965). Preston and Post (1975) expanded on

Ansoff's theorizing by classifying a stakeholder as either primary or secondary. They offered that stakeholders were primary to the organization when they provided "the basis for exchange relationships between it and the rest of society" (Preston et al., 1975: 75). Post et al. (1996) later explained that these stakeholders would be the market-driven ones. Preston and Post thought that stakeholders should be considered secondary when their relationships or activities were "ancillary or consequential to its primary involvement activities" (1975: 96).

Management theorists exploring the third type of stakeholder theory have often found that paying attention to stakeholders is not only a highly appealing idea, but it is also good for business (Jones, 1995). In fact, according to the normative stakeholder theory, firms should be responsible to the varied interests of all stakeholders rather than merely to the economic wellbeing of stockholders alone (Jawahar et al., 2001). Not surprisingly, the range of stakeholder interests and demands will likely be in opposition to each other. The management of these competing demands is one of the primary functions of management (Ansoff, 1984). SO has been defined as the strategic attention that an organization directs to the diverse interests of stakeholder groups (Greenley et al., 1997) and this definition will be used in this study.

Stakeholders Defined

A stakeholder has been defined by Freeman (1984: 46) as "any group or individual who can effect, or is affected by, the achievement of an organization's objectives." Clarkson (1995 :5) defined stakeholders more specifically as those that "bear some form of risk as a result of having invested some form of capital, human or

financial, something of value, in a firm.” Moreover, Mitchell et al (1997: 858) lists twenty-five other publications with various definitions of stakeholders. Without a clear consensus on how to define a stakeholder, the essential question that most definitions attempt to answer is, ‘What is a stake?’ The two definitions above certainly represent a contrast in broad versus narrow viewpoints of stakeholders. With Clarkson’s (1995) narrow perspective, a distinction can be made between stakeholders that voluntarily or involuntarily bear some form of risk. Voluntary stakeholders are those that bear risk based on an investment of either capital, human, or financial value in a firm. Involuntary stakeholders are at risk due to the activities of the firm. The common element between both types of stakeholders is risk, and without risk there is no stake (Mitchell et al., 1997).

In the broader definition offered by Freeman (1984), the list of possible stakeholders is so expansive that it could include almost anyone or any entity. Diverse groups such as suppliers, community, industry, local government, neighbors, lobby groups, labor unions, and the natural environment have been included as stakeholders under this broad definition (Berman, Wicks, Kotha, & Jones, 1999; Greenley et al., 1997; Hillman et al., 2001a; Kimery & Rinehart, 1998; Logsdon & Yuthas, 1997). The broadness of this definition (i.e. “can effect or is affected by”) allows the stake to be either unidirectional or bidirectional, and there is no requirement for reciprocal action as in a contract or with a relationship (Mitchell et al., 1997).

A narrower definition of stakeholders will fit this study best. Freeman’s definition (1984) is so broad that it would include everyone or every entity, except those with no power to affect the firm and have no relationship to the firm. The claim that a

stakeholder is “any group or individual who can effect, or is affected by, the achievement of an organization’s objectives” (Freeman, 1984: 46) is so broad that it is not falsifiable. In contrast, Clarkson’s definition (1995) uses risk to represent some form of legitimate claim on an organization by stakeholders. A legitimate claim is required to fully understand the stakeholder environment, but does not necessarily imply the power to influence the organization (Mitchell et al., 1997). Stakeholders must have something of value at risk (i.e. capital, human or financial value) in a firm, as well as represent a legitimate claim upon the firm (i.e. current wages, warranties and equity), with or without the power to influence the performance of a small business, in order to be acceptable as a stakeholder for this study.

Define and Describe Importance of SO

Stakeholder orientation, for the purposes of this study, is defined as the strategic attention that an organization directs to the diverse interests of stakeholder groups (Greenley et al., 1997). Since stakeholders must have something of value at risk as well as a legitimate claim with an organization, the assumption can be made that each stakeholder group will not have the same value at risk, even though each stakeholder group may have a legitimate claim. Managers must use limited time and attention to sort through levels of importance of stakeholder risk and legitimacy to deal with stakeholder claims of the firm (Mitchell et al., 1997). Additionally, the range of interests and demands of the various stakeholder groups will likely be in opposition to each other, further complicating the role of the manager. Since the third type of stakeholder theory, (i.e. descriptive/empirical theory) states that the firm should be responsible to the varied

interests of all stakeholders (Jawahar et al., 2001), the management of these competing demands can be a great challenge to one of the primary functions of management (Ansoff, 1984). A well defined stakeholder orientation of the firm will offer managers a heuristic or routine for dealing with the competing demands of stakeholders.

Managers may direct an orientation toward stakeholders based on a variety of principles and maintain a degree of narrowness appropriate for the organization to assist management in understanding the importance of SO. Some examples are SO based on the degree of necessity of the stakeholder to the survival of the organization (Bowie, 1988; Freeman et al., 1983), stakeholders that have something at risk with a firm (Clarkson, 1995), and stakeholders that are contractors in an exchange relationship with the firm (Hill & Jones, 1992). Regardless of the parameter established for managers, SO provides a framework for a firm to influence the strategic attention directed at the varied interests and demands of multiple stakeholder groups.

Primary and Secondary Stakeholders

Preston and Post (1975) theorized that the stakeholders in a firm could be classified as either primary or secondary. They offered that stakeholders were primary to the organization when they provided “the basis for exchange relationships between it and the rest of society” (Preston et al., 1975: 75). Post et al. (1996) later explained that these stakeholders would be the market-driven ones. Preston and Post thought that stakeholders should be considered secondary when their relationships or activities were “ancillary or consequential to its primary involvement activities” (1975: 96). Based on

these definitions, Table 1 provides a variety of influential articles and depicts the delineation between primary and secondary stakeholders.

TABLE 1
PRIMARY AND SECONDARY STAKEHOLDER STUDIES

Author (year)	Primary Stakeholders	Secondary Stakeholders
(Freeman, 1984)	Competitors, consumers, employees, shareholders, suppliers, and unions	None
(Narver & Slater, 1990)	Employees, customers, shareholders, and competitors	None
(Jaworski & Kohli, 1993)	Employees, customers, shareholders, and competitors	None
(Post, Fredrick, Lawrence, & Weber, 1996)	Employees, suppliers, customers, and investors	None
(Greenley et al., 1996)	Employees, customers, competitors, shareholders, and unions	None
(Greenley et al., 1997)	Employees, customers, competitors, shareholders, and unions	None
(Greenley et al., 1998)	Employees, consumers, competitors, and shareholders	None
(Berman et al., 1999a)	Employees and customers	Community and the natural environment
(Waddock et al., 1997b)	Consumers, employees, and shareholders	None
(Agle, Mitchell, & Sonnenfeld, 1999)	Consumers, employees, and shareholders	None
(Hillman et al., 2001a)	Employees, suppliers, and customers	Community, industries, and government

(Yau et al., 2007)	Employees, customers, shareholders, and competitors	None
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No matter how we label them, some stakeholders will bear some sort of direct risk in an organization's performance, and others will be indirectly impacted by the organization's performance whether they care to be or not (Evan & Freeman, 1988; Freeman, 1984). The difference between these two groups is the primary stakeholders have deliberately chosen to accept the risk of the firm's performance, whereas the secondary stakeholders have no choice in accepting the risk but are nonetheless affected by the performance of the firm. Based on the studies shown in Table 1 and Clarkson's (1995) definition of stakeholders, those that will certainly bear either a capital, human, or financial risk in the performance of the firm can also be identified as primary stakeholders. These stakeholder groups also fit the definition of primary stakeholders (Post et al., 1996; Preston et al., 1975). Since the stated research questions examine SO in the context of the performance of small, young firms, an important question to answer is, "Who are the primary stakeholders and how are they related in small, young firms?"

Table 1 depicts most studies using primary, market driven stakeholders, which are also appropriate for small, young firms. Market driven stakeholders are those that are directly affected in the economic exchange relationship of the business (Post et al., 1996). In contrast, small businesses that are still young may not have the resources to apply to the management of secondary stakeholders. Secondary stakeholders are ancillary to the primary exchange relationship of the business (Preston et al., 1975) and may include the community, local government, lobby groups, labor unions, or the natural environment. Even those that may have the resources will certainly also be oriented toward primary

stakeholders since they are directly involved in the economic exchange relationship. Additionally, most studies in Table 1 use employees, customers, and competitors as well as shareholders. These stakeholders are suitable for this study with the exception of replacing shareholders with investors. Since small, young firms will generally not be publicly traded organizations, most small businesses will be privately owned. Therefore, investors along with employees, customers, and competitors will provide the proper mix for a study of small, young firms. These stakeholders are also best suited to the needs of this study because each of these stakeholder groups will be present in the targeted population.

Chakravarthy (1986) conceptualized organizations as interactions between primary stakeholders, each dependent on the other. At the most basic level even small, young firms must have customers (Batt, 2000), and will generally have one or more employees (Kickul, 2001; Kotey & Slade, 2005). A small business is generally not a monopoly and management will envision at least one or more competitors (Beal, 2000). There will naturally be interactions between employees and customers (Batt, 2000), and actions or reactions with competitors in the marketplace (Beal, 2000). Also, small businesses must be financed, so investors may be comprised of an owner, business partners, or others with a financial investment in the outcome of the business (Hsu, 2006; Van der Wijst, 1989). These investors may also interact with other stakeholders and be relevant to most small businesses. Therefore, the four primary stakeholders for small, young firms in this study are employees, customers, investors, and competitors.

The Four Primary Stakeholders

The four primary stakeholders – employees, customers, investors, competitors – have an economic relationship to the firm. Since primary stakeholders have a direct economic exchange relationship between the firm and society (Preston, 1975), each are important to the firm. Any one stakeholder group could be seen as the most significant stakeholder to a particular firm. The purpose of this section is to describe why a small business may want to have a strategic interest in each of the four primary stakeholders, followed by a discussion of the strengths and weaknesses of the most relevant empirical studies of SO.

A small, young firm may have a strategic interest in employees. Employees may be anxious over job security, pay parity, benefits, or their association with their employer. Research has shown that the performance of an organization is directly related to the attitude and behavior of the firm's employees (Riordan, Gatewood, & Bill, 1997). Small businesses have shown a greater propensity to institute a formal hierarchical structure, establish a recognized division of labor, and augment administrative processes to be more attune to the workforce as the business increases the number of employees (Kotey et al., 2005). Likewise if employees feel ignored as an organization grows, workers may feel that an implied psychological contract has gone unfulfilled, and that may impact workplace attitudes and eventually the intention to leave the firm (Kickul, 2001). Young firms may decide that the attitude and performance of the workforce is paramount to the manufacture of products or the offering of services, and managers may be more oriented toward employees than any other stakeholder group.

Organizations are more likely to enjoy loyal customers when they have an orientation toward customers. Customers have been found to be positively affected by the performance of an organization when the firm has a reputation for innovative, prestigious, and imaginative products (Chun & Davies, 2006). Additionally, the firm's reputation has been shown to have the broadest influence over other attributes, such as brand image, on perceptions of customer value and customer loyalty (Cretu & Brodie, 2007). Given the importance of customer perceptions on an organization's performance, small firms have been found to engage in relationship marketing similar to large firms to craft a bond with customers that can strengthen perceptions and reinforce loyalty to the organization (Day, Dean, & Reynolds, 1998). Organizations that employ relationship marketing have been found to have a competitive advantage through the development of closer relationships with customers, improvement in customer satisfaction through the ability to anticipate customer needs, and long term financial benefits through lower relationship costs (Day et al., 1998; Morgan & Hunt, 1994). For these reasons, a young firm may choose to have a greater orientation to customers than any other stakeholder group. However, some firms may see a dyadic relationship between matching specific employees with customers. Particularly in the service sector where specific employees can be matched with high-end customers to establish or continue a relationship, a value added competitive advantage may be found. Firms have used strategic segmentation to identify customers by demand characteristics in an attempt to match the demand as well as the potential revenue stream of customers to the pertinent skills of employees (Batt, 2000).

Investors may be of primary concern to a small business since it is the investors that provide the capital to begin and grow a business when an owner cannot finance the start-up alone. Outside investors typically come from one of three sources: 1) banks or financial institutions, 2) venture capitalists, or 3) angel investors. Banks or financial institutions make up the bulk of outside investors and generally stress the financial aspects of the business. Venture capitalists are very selective investors that are not only concerned with financial issues, but also with market issues. Angel investors are also very selective and give great consideration to owner-investor 'fit' considerations (Mason & Stark, 2004). Additionally, venture capitalists generally require an active involvement in the governance of the company in which they invest, as well as a potential equity position in exchange for the risk that is accepted when investing in a small business (Maier & Walker, 1987). Regardless of the type of investor, return on investment is a common concern due to the high risk and failure rates of small businesses (Maier et al., 1987; Mason et al., 2004). Studies have examined investor reaction to the firm's announcement of more rigorous governance procedures (Picou & Rubach, 2006) as well as announcements of major new customers, new products or services, and new acquisitions and organizational changes (Rajgopal, Venkatachalam, & Kotha, 2002). When shareholders or investors are concerned with their investment as demonstrated by a lack of performance of an organization, managers and executives are removed from their positions more quickly and other executives are less likely to engage in strategies that may be perceived as risky (Cannella, 1995). With outside investors actively involved in an organization, it would be reasonable for a young firm to have a greater orientation toward investors rather than any other stakeholder group.

The orientation to competitors in a small business may be for traditional economic reasons where businesses are contending for the same customer sales, or it may be an alliance of small competitors trying to survive against large corporations. Small businesses lack the economy of scale and efficient management practices of larger, well known competitors, which may result in higher prices for products or services (Tsang, 1994). Attention to price structure and other potential areas of weakness are important for a small business to remain competitive in an industry with larger businesses that may threaten the absorption of the smaller firm's customers or market share. Additionally, some small firms competing in markets with large, well established competitors have found it advantageous to network with other small business competitors to create a larger market presence in terms of buying power, cooperative advertising, and common signage (Brown & Butler, 1995). Small businesses may view each other not as antagonists, but as allies against larger competitors. Competitor networks may also be used as an informational tool. Competitors become stakeholders in a small business when they have a stake in the success of the firm by providing valuable information that would not be cost effective for a small firm to generate on its own (Bygrave, 1988). Competitor networks established among small businesses have been shown to result in higher sales for network member firms (Brown et al., 1995). For reasons of economic survival or to level the playing field with larger firms, a young firm may choose to have a greater orientation to competitors than any other stakeholder group.

The stakeholder orientation construct is the focal point in very few empirical studies (Berman et al., 1999; Greenley et al., 1996, 1997, 1998; Yau et al., 2007). The four primary stakeholders – employees, customers, investors, and competitors – are

important to small businesses and have been a part of all these studies. The most relevant empirical studies are summarized next followed by a discussion of common strengths and weaknesses.

TABLE 2
EMPIRICAL STUDIES OF STAKEHOLDER ORIENTATION

Author (year)	Dependent Variable	Stakeholders	Sample	Moderators
Greenley et al. (1996)	Stakeholder groups	Employees, customers, competitors, shareholders, and unions	230 publicly-traded companies in the United Kingdom; Dun and Bradstreet database; companies > 500 employees	Environmental moderators (e.g. competitive hostility, market turbulence, market growth, ease of market entry, and technological change)
Greenley et al. (1997)	Firm performance	Employees, customers, competitors, shareholders, and unions	230 publicly-traded companies in the United Kingdom; Dun and Bradstreet database; companies > 500 employees	Environmental moderators (e.g. competitive hostility, market turbulence, market growth, and technological change)
Greenley et al. (1998)	Firm performance	Employees, consumers, competitors, and shareholders	230 publicly-traded companies in the United Kingdom; Dun and Bradstreet database; companies > 500 employees	External environment (e.g. competitive hostility, market turbulence, market growth)

Berman et al. (1999)	Firm performance	Employees, customers, community relations, and the natural environment	81 firms from the top 100 on the Fortune 500 of 1996	Stakeholder relationships in one model and business-level strategy as a mediator in another model
Yau et al. (2007)	Firm Performance	Employees, customers, shareholders, and competitors	400 private, state-owned, and joint venture firms in mainland China; Dun and Bradstreet database; companies ranged from less than 100 to more than 5000 employees	None specified

A common theme in most previous empirical work is the importance of the relationship between SO and firm performance (Berman et al., 1999; Greenley et al., 1997, 1998; Yau et al., 2007). One study examined SO in the context of the importance of stakeholders within a firm but did not link stakeholder importance to firm performance (Greenley et al., 1996). Those studies using firm performance as the dependent variable also found financial performance was important to shareholder groups. Another common thread in previous research is the adoption of the subjective approach to firm performance. CEO's or upper level managers were surveyed for opinions of the firm's performance in relation to major competitors. A strength of the studies is globally diverse representations of three distinct markets in the United Kingdom, the U.S., and mainland China; however, the focus of most of them has been on large firms or a mixed set of firms. None of the previous SO research has focused on small firms. Finally, most

of the studies have used moderators that suggest that the external environment impacts the relationship between SO and performance (Greenley et al., 1996, 1997, 1998).

Some individual areas of strength can also be determined from previous studies. In Greenley and Foxall's first study (1996) they found that there were significantly different levels of orientation among the various stakeholder groups. Previous research had often been weighted toward consideration of only customers (Miller & Lewis, 1991; Mintzberg, 1983; Posner & Schmidt, 1984). In Greenley and Foxall's second study (1997), they found it was likely there would be multiple stakeholder orientation tendencies among the various organizations in the sample; however, they did not develop the specific orientations that might occur. In the third study (Greenley et al., 1998), more specificity in linking stakeholders to various measures of performance was developed. Employee orientation was found to be associated with new product success, and customer orientation was linked with sales growth. Similarly, investor orientation was related to both market share as well as return on investment, and competitor orientation was linked to return on investment and sales growth. Finally, Yau et al. (2007) developed and tested a scientific scale to measure the influence of each stakeholder orientation allowing for the possibility of assessing influence of each dimension on firm performance.

Areas of weakness among these studies include the lack of scale development and the use of secondary data. Secondary data is designed by someone other than the researcher, and offers less control over the collection, categorization, and measurement process (Pedhazur & Schmelkin, 1991). Yau et al. (2007) is the only study that engaged in scientific scale development of the stakeholder orientation construct, and they along with Greenley et al. (1997) were the only studies based on the results of primary data

collection. Another weakness found from the lack of scale development in the other studies was the aggregation of the various stakeholder groups into a single construct. These studies then found that SO either partially or fully supported firm performance. However, Greenley et al. (1998) found both positive and negative associations with performance depending on which stakeholder group was being measured and which environmental moderator was applied. This indicates a need to separate the dimensions of SO when studying the effect on performance. Another weakness in four of the studies was the lack of longitudinal data. Berman et al. (1999) was the only study that included a longitudinal database constructed from secondary data collected over a six year span. The common weakness found across all five studies was the use of cross sectional data.

In summary, stakeholder orientation has been found to be a multi-faceted construct consisting of four dimensions – employee, customer, investor, and competitor orientations. A scale has been developed to measure each orientation (Yau et al., 2007), and each orientation may have an effect on various areas of firm performance (Greenley et al., 1998). Additionally, environmental factors within the organizational context may moderate the effect of SO on firm performance (Greenley et al., 1996, 1997, 1998).

Context

Small Business Lens

All firms must rely on resources available within the operating environment. Businesses may operate in an industry saturated with other small businesses; compete in an industry dominated by larger corporations, or a combination of the two scenarios. Resources may be plentiful or scarce, and firms will grow, subsist, or fail to survive

depending on the ability to function in the operating environment (Aldrich, 1979). The margin for error within the operating environment of a small business will be much smaller than an established corporation, increasing the small businesses chance of failure. Although there has been much discussion over the failure rate of small businesses depending on how failure is defined, conservative estimates range from nine percent per year (or $1 - [.91]^4 = 31\%$ over four years) up to half of all young, small businesses fail within four years (Carter & Van Auken, 2006; Headd, 2003). A theoretical basis for this argument may be developed from resource dependency theory where a firm's dependence on the environment may be expressed in many ways. The resource may be measured in terms of critical need, the ready availability of the resource within the environment, or the number and power of competitors also seeking the same resource (Pfeffer & Salancik, 1978). The competition for resources among organizations may also impact the ability of various stakeholders to affect the performance of the firm.

SO Lens

In three of the five empirical publications on SO from Table 2 (Greenley et al., 1996, 1997, 1998), moderators were suggested that could help explain the relationship between SO and performance through the measurement of factors in the external environment. A closer look at the moderators and measurement procedures are shown in Table 3.

TABLE 3

MODERATORS OF STAKEHOLDER ORIENTATION

	Greenley et al. (1996)	Greenley et al. (1997)	Greenley et al. (1998)
SO dimensions tested in the moderation of firm performance	Consumer orientation	Consumer, competitor, employee, shareholder, and union orientation	Consumer, competitor, employee, and shareholder orientation
Moderators	Market growth, competitive hostility, market turbulence, ease of market entry, and technological change	Market growth, competitive hostility, market turbulence, and technological change	Market growth, competitive hostility, market turbulence, and technological change
Analysis procedure	Analysis of each moderator individually with consumer orientation	Analysis of each moderator individually with an aggregate sum of all SO dimensions	Analysis of each moderator individually with each dimension of SO
Results	No moderation supported	Support found for competitive hostility and market growth; no support found for market turbulence and technological change	Moderation support found for all 12 combinations of individual moderators and SO dimensions

All three articles were authored by Greenley and Foxall (1996, 1997, 1998) and all three examined a mix of contextual factors. After mixed support for moderation in the external environment, these authors eventually concluded that each dimension of SO must be analyzed with each potential moderator. However, concern may be expressed over the operationalization of the external moderators. Greenley and Foxall (1996, 1997, 1998) credit Narver and Slater (1990) with the design of the moderators, but these

moderators were devised for studies of market orientation. Market orientation is composed of only two orientations (i.e. consumer and competitor) (Kohli & Jaworski, 1990; Narver et al., 1990), thereby excluding consideration of the employee, shareholder, and union orientations from Greenley and Foxall's final two studies (1997, 1998). Finally, additional concern may be expressed over the reliability of the SO scales. In the final study, Greenley and Foxall (1998) report the following measures of Cronbach's coefficient alpha for the dimensions of SO: competitor orientation scale, 0.72; consumer orientation scale, 0.64; employee orientation scale, 0.67; shareholder orientation scale, 0.67. Although the authors represent these reliability measures as being acceptable given a new research instrument, it can be argued that this instrument is the same as those published in their two prior articles (1996, 1997) with virtually the exact same measures of Cronbach's coefficient alpha for the dimensions of SO. Ideally, the SO scales should be reliable at the 0.70 level or higher (Churchill, 1979; Cronbach, 1951). Greenley and Foxall (1997: 280) admit to the same when they state that the scales feature a "limited number of items, owing to limitations of questionnaire design."

As stated earlier, resource dependency theory may be used to examine a firm's dependence on the environment. The resource may be measured in terms of critical need, the ready availability of the resource within the environment, or the number and power of competitors also seeking the same resource (Pfeffer et al., 1978). Greenley and Foxall (1998) attempted to assess change within a firm's resource environment through the choice of external moderators. However, Dess and Beard (1984a) recommend using a scale of environmental dynamism and munificence when studying the organizational context of a firm.

Environmental Dynamism

The term 'environmental dynamism' refers to the rate of change within the environment lacking any pattern (Dess et al., 1984a). Environmental dynamism can be expressed in terms of either uncertainty, adaptation to change, or predictability. Many early studies conducted primarily in the 1980's sought to reconcile the fit between a firm's decision making processes and the environment (Eisenhardt, 1989; Fredrickson, 1984; Judge & Miller, 1991; Miller & Friesen, 1983). However, these early studies failed to achieve consensus in the findings on the impact of environmental dynamism on firm performance. A seminal article was written by Priem, Rasheed, and Kotulic (1995) that achieved a convergence of past works in the field as well as offered empirical evidence of the positive effect of a firm's decision making processes on performance in dynamic environments. Since this work, many other studies have also found that dynamic environments moderate the effect of the relationship of various constructs onto performance such as process rationality (Goll & Rasheed, 1997), capital structures (Simerly & Li, 2000), and chief executive scanning (Garg, Walters, & Priem, 2003).

The literature has suggested that small businesses should implement strategic actions wary of the external environment in which they operate (Hsu, 2006). Additional studies have shown evidence that linked environmental dynamism to the turbulent environment in new ventures (Davis, Morris, & Allen, 1991; Venkataraman, Van De Ven, Buckeye, & Hudson, 1990). Covin and Slevin (1989) also found that small firms in a hostile environment performed better when they had more of an entrepreneurial focus. Firms that operate in a hostile environment and small firms in general must develop

coping mechanisms to handle uncertainty and adjust processes to create a more predictable environment for survival (Dess et al., 1984a). It is also suggested that the degree of dynamism in external environments continues to increase with the continual evolution of industrial economies (Terreberry, 1968) implying that dynamism may have an effect on other relationships under study. The uncertainty or predictability in the external environment, for instance, may impact the ability of various stakeholders to influence the performance of the firm.

Environmental Munificence

Environmental munificence may be defined as capacity (Dess et al., 1984a), or the ability of the external environment to support constant growth or change (Aldrich, 1979). Munificence has also been defined in terms of opportunities and threats within the environment (Castrogiovanni, 1991) referring to the amount of capacity available or not exploited. Research on environmental munificence documented for over a quarter century has clearly shown the influence on the processes, structures, and strategies of organizations. Specifically, munificence has often been found to moderate relationships especially when the dependent variable has been firm performance. Some independent variables found in empirical studies to be moderated by munificence are strategy (McArthur & Nystrom, 1991), process rationality (Goll et al., 1997), discretionary social responsibility (Goll & Rasheed, 2004), and decision making (Goll & Rasheed, 2005). The results clearly suggest the impact of environmental munificence on an organization is strong enough to modify such basic processes as a firm's strategy and decision making. Other wide ranging relationships have also found environmental munificence to be a

moderating factor in studies of network effectiveness (Provan & Milward, 1995), stock market response to e-commerce alliance partnerships (Park & Mezias, 2005), research and development investments (Heeley, King, & Covin, 2006), and governance arrangements in a study of Taiwanese firms (Wu, 2008).

Environmental munificence may also be linked to resource dependency theory such that firms operating in an austere environment may not have access to resources to promote growth, or may have competitors vying over the same resources diminishing the available capacity. Conversely, firms may be able to accumulate excess capacity due to operational efficiencies or the lack of competition so that this capacity is available to provide a cushion for times when resources again become scarce. Romanelli (1989) found that the survival of young firms was higher when demand within the industry was increasing. This finding was linked to the fact that industries with rising demand also had an abundance of resources that attracted the entry of new, young firms. Additionally, the firms that survived had an ability to exploit resources that were honed with the increased intensity of competition. Hence, greater munificence in the external environment should lead to greater capacity to influence stakeholders as well as increase the survival rates for small, young firms.

Organization Performance

Firm performance is the final construct to be discussed and can be defined through a myriad of measures due to its multidimensional nature (Chakravarthy, 1986). There has been increased interest in how researchers define and measure performance. The traditional financial measurements look backward at an organization's performance

and researchers have called for other measures to accommodate the rapid changes in the environment (Bourne, Mills, Wilcox, Neely, & Platts, 2000). In addition to arguing for a greater range of measures, researchers have also called for balance among the measures. Kaplan and Norton (1992) have suggested authors consider customer satisfaction, learning and growth, and internal business processes to augment the traditional financial measures. Others advocate intangibles such as management performance, quality of strategy, customer satisfaction, and employee retention (Light, 1998). The issue with many of the non-financial measurements is the possibility of overlap with measurement of the various stakeholder groups in the independent variable.

Since firm performance will be employed as the dependent variable in the context of examining SO in small firms, a prudent operationalization of such a broad construct is to borrow measures from previous studies of SO. Researchers from the SO and stakeholder management literature have repeatedly called for research to go beyond measures of financial performance (Cameron, 1986; Hillman, Keim, & Luce, 2001b). To this end, the three studies of SO already discussed above by Greenley and Foxall (1996, 1997, 1998) used subjective measures such as the respondent's assessment of the company's return on investment, sales growth, and market share compared to competitors. Other studies have measured stakeholder orientation using measures of employee and community relations, diversity, environmental and product issues (Hillman et al., 2001a; Waddock et al., 1997b). This research however, has not been without problems. Small firms and those that are privately owned create unique challenges in the measurement of performance.

Studies have found difficulties in the measurement of performance in small and private businesses that may be generalized across industries and nationalities (Bhaskaran, 2006; McAdam & Bailie, 2002; Yang, 2006). Two common findings pertain to the studies: first, the study of performance in a small business represents a non-operational activity for the small business. Owners of small businesses rarely have time to devote to research studies and generally result in poor response rates. Second, owners of small businesses generally do not use a structured performance model to measure the company's progress. They often focus strictly on survival, and performance is defined in operational and financial terms. Additionally, research has found that small business owners generally approach performance measurement in an unplanned manner and only when there is a specific problem to solve (Hienerth & Kessler, 2006). They have limited resources so performance dimensions such as innovation, human resources, work atmosphere, research and development, and training are seldom measured (Garengo, Biazzo, & Bititci, 2005).

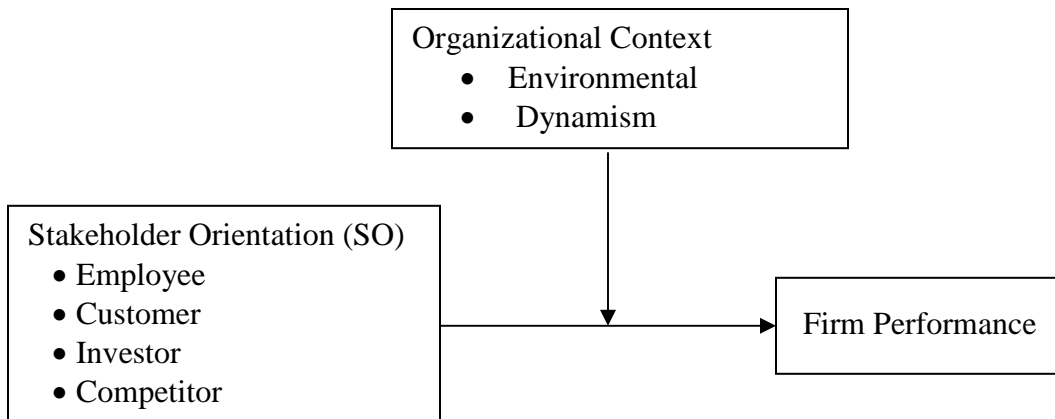
When sampling small business performance, Lumpkin and Dess (1996) stress the need for a mix of financial and non-financial measures, as well as sensitivity to the fact that a firm's measure of effectiveness will evolve over time. The Yau et al. (2007) research used comparable insight when developing ten items to represent firm performance. They found that performance could be represented by three major factors: financial and marketing performance represented by ROI, profit and market share; customer satisfaction; and employee satisfaction. Furthermore, a wealth of previous studies has also shown that the subjective perceptions of business owners and executives

are consistent with objective measures (Covin, Slevin, & Schultz, 1994; Dess, 1987; Dess & Robinson, 1984b; Venkatraman, 1990; Venkatraman & Ramanujam, 1986).

Model for the Study

The basic conceptual framework for this study shown in Figure 1 in the first chapter depicted a direct effect of SO on firm performance. That basic framework can now be expanded into the full conceptual model for this study (see Figure 2). SO consists of four dimensions: employee, customer, investor, and competitor. Additionally, the constructs of environmental dynamism and environmental munificence have been added as moderators because of the potential impact of organizational context on the relationship between SO and the performance of small, young firms.

Figure 2 – Performance Implications of Stakeholder Orientation



Summary

This chapter began with an exploration of stakeholder theory to trace the concept of stakeholder orientation as it has evolved. SO was defined and the importance of the

concept was explained, especially for small businesses. Primary and secondary stakeholders were defined and identified. This study will use primary stakeholders. The literature was reviewed next on organizational context, specifically looking at context from the perspective of small businesses and stakeholder orientation. Two primary areas of context to be used in this study are environmental dynamism and environmental munificence. The literature on each of these was reviewed particularly with regard to small businesses. Firm performance in small organizations was studied next examining the issues of measurement in private organizations. After reviewing these constructs, the full conceptual model was presented. Hypotheses and methodology will be developed in Chapter III.

CHAPTER III

RESEARCH HYPOTHESES AND METHODOLOGY

Chapter II explored stakeholder orientation as it evolved from its roots in stakeholder theory. Stakeholder orientation, and primary and secondary stakeholders were defined, and the literature was reviewed pertaining to the importance especially for small businesses. Organizational context was also reviewed specifically looking at context from the perspective of small businesses and stakeholder orientation.

Environmental dynamism and environmental munificence were two primary areas of context that were identified and analyzed for inclusion in this study. Finally, firm performance in small organizations was reviewed and a full conceptual model was presented. This chapter expands the theoretical underpinnings for each of the constructs to develop testable hypotheses that will address the questions of interest. These questions are: How does stakeholder orientation relate to performance of small, young firms? And a second research question to be explored: Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms?

Lastly, a methodological framework is offered that supports the testing of hypotheses, and will provide analytical data that will aid in better understanding the performance implications of stakeholder orientation. The primary theories drawn upon to support the hypotheses are stakeholder theory, resource dependency theory, and the

theory of the firm. These theories will be addressed next to develop the supporting hypotheses for the direct effect of stakeholder orientation and the moderating effect of organizational context.

Theoretical Support for Research Hypotheses

Studying and expanding upon stakeholder theory provides a normative approach called for by Donaldson, et al. (1995) in their taxonomy of stakeholder theory. In that spirit it is quite understandable that different firms will have various orientations to stakeholders, especially with the variety of stakeholders described in the previous chapter. No matter how we label them, some stakeholders will have a vested interest in the organization's performance and others will be impacted by that performance whether they care to be or not (Evan et al., 1988; Freeman, 1984). As stated in the previous chapter, one of the central tenets of stakeholder theory insists that firms are responsible to an array of stakeholders. Yau et al. (2007) found support for four dimensions of the SO construct represented by the four primary stakeholders used in this study: employee orientation, customer orientation, shareholder (or investor) orientation, and competitor orientation.

Additionally, the organizational resources available to a firm will have a significant impact on stakeholder orientation. Stronger organizational resources may not affect every SO dimension, but the overall effect of better resources will have a significant effect on SO. For example, an organization in a declining business cycle or one that has not yet established itself as a viable entity in the marketplace, may not wish to expend additional resources on product development for customers, new training for

employees, or industry studies of the competition. In accordance with resource dependency theory, the owner of a firm makes strategic choices in relation to organizational resources (Pfeffer et al., 1978).

One of the strategic choices required of a small business is in the allocation of limited resources to stakeholders. Given that all firms have limited resources, small firms will have fewer resources available than larger organizations. Brush and Chaganti (1999) found support for the influence of organizational resources in small firms, as well as for their influence on cash flow. As a small business attempts to maximize its cash flow and achieve the greatest influence from its limited resources, strategic choices must be made on the allocation of resources to specific stakeholders. Therefore, given restrictions on resources while still trying to increase cash flow, an important question is which stakeholder receives the favor of a small firm's strategic choice.

Expanding stakeholder theory into various views may give a clearer understanding of how small businesses make strategic choices regarding stakeholders. The resource-based view of the firm (Barney, 1991; Wernerfelt, 1984) theorizes that firms are comprised of a collection of resources that may be valuable, rare, inimitable, and non-substitutable. The blend of resources and resource qualities contribute to the heterogeneity of each small business. This blend within each firm may influence the strategic choices an owner makes toward specific stakeholder groups. Sachs and Ruhli (2005) propose that firms with a resource view may be more concerned with internal stakeholders, such as employees and investors/shareholders. These relationships may be the most vital to a small business since without employees or investors the business may

not survive. Therefore, a small, young firm that maintains a resource-based view may be more favorably disposed to employees and investors.

In contrast to the resource-based view of the firm, the industry structure view is directed at relationships between the firm and external groups within the industry (Sachs et al., 2005). This view would include customers and competitors of the small business. Firms that have an industry structure view may be more inclined to direct strategic attention toward customers and competitors of the company. Relationships with customers and an understanding of competition can be interpreted as crucial to the success of a small business, since without customers there would be no revenue and without an understanding of competitors the business may not survive. In this case, a small, young firm with an industry structure view may direct more attention toward customers and competitors. Therefore, the strategic decisions a small, young firm makes in regard to stakeholder importance may be related to whether the business assumes a resource-based view or an industry structure view.

The last theory to be discussed is the theory of the firm. The theory of the firm has evolved in the literature over centuries (Cantillon, 1734; Penrose, 1959; Schumpeter, 1942), but the theory of the conception of small firms has largely been discussed in more recent research (Alvarez & Barney, 2004; Casson, 2002; Sautet, 2000; Shane et al., 2000). These theories attempt to explain how the entrepreneurial endeavors of small firms, operating in uncertain environments, can identify and develop unique opportunities through savvy orientation to pertinent stakeholders (Dew, Velamuri, & Venkataraman, 2004). Without the development and exploitation of unique opportunities, small firms would be at a

severe disadvantage relative to their larger and more established competition. Stinchcombe (1965) theorized that the success of small firms, especially those that were new to the marketplace, would be strongly associated with the quality and magnitude of their relationships with stakeholders. The more stakeholders a small firm was connected to and the greater the quality of that relationship, the higher the likelihood of success in terms of performance in the marketplace. To remain a viable presence in the marketplace, Casson (2005), in a discussion on the theory of the firm, suggests that small firms must monitor the environment and be able to effect changes to respond to shifts in the environment.

The environment of a small firm is controlled by its stakeholders, namely the employees, customers, investors, and competitors. Shifts in the stakeholder environment, such as changes in the education level of employees, product quality demands of customers, revenue goals of investors, or pricing strategies of competitors, must be anticipated by a small firm's managers so that they can respond to the environmental shifts in a timely and appropriate manner. The balance between the strategic attention given to stakeholders and the shifting environment is important because of the value of stakeholders to the performance of small firms (Mitchell & Cohen, 2006).

Stakeholder theory, resource dependency theory, and the theory of the firm can be used to support the development of research hypotheses. Before discussing hypotheses for the relationship between SO and firm performance, an understanding of the latter is imperative.

Studying Firm Performance

Firm performance is most often measured in financial terms, which does not begin to encompass the operational and organizational effectiveness of a firm's worth (Venkatraman et al., 1986). Financial measures are one element of firm performance but they consider only whether the organization is meeting its economic goals. Although financial measures are certainly important, a mix of financial as well as non-financial measures, such as organizational resources, is recommended for measuring firm performance (Brush et al., 1999). Venkatraman and Ramanujam (1986) theorize the domains of organizational performance and operational effectiveness as two broader measures of performance beyond the domain of financial performance. Operational performance is defined as product quality and the market share commanded by a firm. The broadest conceptualization is organizational effectiveness. In this measure of firm performance, Venkatraman and Ramanujam (1986) hypothesize that stakeholder satisfaction is an appropriate measure. The satisfaction of stakeholders is also cited as an integral component of firm performance by Chakravarthy (1986) and Cameron (1986). It is important to visualize firm performance in a broader scope beyond financial measures because even though financial measures may be an indicator of current economic success, the domains of operational performance and organizational effectiveness may show non-financial measures that will lead to firm performance (Orlitzky, Schmidt, & Rynes, 2003; Rowe & Morrow, 1999).

Stakeholder theory (Donaldson et al., 1995; Evan et al., 1988; Freeman, 1984) and resource dependency theory (Pfeffer et al., 1978) can be used to detail

the theoretical justification for a positive relationship between SO and firm performance. The prosperity and even survival of an organization has been theorized to rely in a significant respect on the firm's positive treatment of stakeholders (Clarkson, 1995). From a resource perspective, Hillman and Keim (2001a) further argued that the successful management of stakeholders can create socially complex resources that are intangible, and may permit firms to lead their competition in the creation of long term value.

The following sections will explore groups of stakeholders – employees, customers, investors, competitors – as well as offer hypotheses for the direct effect of SO on firm performance, and the moderating effect of organizational context on the SO – firm performance relationship.

Employee Orientation

Employee orientation is defined as the company's intention to address the interests of its employees and satisfy their employment needs (Yau et al., 2007). Although employees are non-consumer stakeholders (Greenley et al., 1996), their actions have a direct effect on consumers. For example, in a manufacturing facility the changes suggested in a product line by conscientious employees can affect the goods provided to customers (Lee & Peccei, 2008). The education or skill level of employees can affect manufacturing or service operations (Giardini & Frese, 2008). Small businesses in the service environment must rely on employees as the face of the company to insure customer satisfaction and encourage repeat business (Marinova, Ye, & Singh, 2008). Employees satisfied

with their job tend to work harder and perform more effectively for their employers (Berman et al., 1999). From the employer perspective, businesses that pay strategic attention to employees will prioritize job security, workplace amenities, and other forms of benefits to satisfy their employees (Hooley et al., 2000).

Businesses will want to retain and satisfy their employees to be successful, and satisfied employees will want to work hard for their employers (Becker & Gerhart, 1996). Additionally, Koys (2001) found that employees that are satisfied in the workplace cause greater organizational effectiveness. The orientation toward the interests of employees has been found in a number of studies to contribute to the success of the organization (Appleyard & Brown, 2001; Bou & Beltran, 2005; Michie & Sheehan-Quinn, 2001). In contrast, firms that do not have an orientation toward employees lacked employee commitment, customer loyalty, and had a lower potential for success (Raab & McCain, 2002). Based on these arguments, the following hypothesis is proposed:

Hypothesis 1a: SO relating to employee orientation will have a significant and positive relationship with performance in small, young firms.

Customer Orientation

Customers have been analyzed as stakeholders by all of the empirical studies introduced in Chapter II (Berman et al., 1999; Greenley et al., 1996, 1997, 1998; Yau et al., 2007). Customer orientation is defined as the firm's focus on customer interests (Yau et al., 2007). Placing the interests of customers at the

forefront of a firm's focus has been the genesis of the marketing concept (Kotler & Levy, 1969), as well as a key component of the market orientation construct (Narver et al., 1990). To place the interests of customers first, a firm must not only be able to create superior value for customers today, but must also anticipate customer needs and desires into the future to create continuous demand (Day & Wensley, 1988). By creating a stream of ongoing demand, a firm is more likely to have loyal customers and repeat business into the future.

Firms that direct strategic attention to customers to sustain increased demand for products or services usually do so through the dedication of a large portion of resources (Yau et al., 2007). Organizations that have invested resources in a reputation for innovation, prestige, and imaginative products have also been found to have a positive effect on customers (Chun et al., 2006). Firms make these commitments with the expectation that the business will continue to grow through increased customer sales. Greater customer sales and higher revenue certainly may lead to higher firm performance. Studies have found higher performance in firms that used customer oriented strategies in turbulent environments (Ward & Lewandowska, 2008), economically developed markets with demanding customers (Zhou, Brown, Dev, & Agarwal, 2007), and family businesses (Tokarczyk, Hansen, Green, & Down, 2007). These arguments suggest the following hypothesis:

Hypothesis 1b: SO relating to customer orientation will have a significant and positive relationship with performance in small, young firms.

Investor Orientation

Investors have been studied as shareholders in previous empirical studies of SO (Greenley et al., 1996, 1997, 1998; Yau et al., 2007), but shareholders are not appropriate in a study of small, young firms. Most small businesses will not be publicly traded organizations and will be privately owned. Since small businesses may require more financing than a single owner can provide, investors may be comprised of an owner, business partners, or others with a financial investment in the outcome of the business. Other outside investors will generally come from one of three resources: 1) banks or financial institutions, 2) venture capitalists, or 3) angel investors. Investor orientation is defined as the strategic orientation directed toward those with both an equity and risk stake in the firm (Mitchell et al., 1997). The equity stake of investors is represented through ownership in the business. Investors may choose to protect their interests in the firm through varying degrees of involvement from a physical presence to periodic financial reports (Mitchell et al., 1997). The financial aspect of the small business represents the risk stake for investors. Investors will be concerned with their return on investment based on the performance of the firm. Outside investors often take an active role in the governance of the company in which they invest as protection for the risk that is accepted when investing in a small business (Maier et al., 1987). Studies have examined firm announcements of more rigorous governance procedures, major new customers, new products or services, and new acquisitions and organizational changes, and found increased volatility from

investor reactions to the firm (Rajgopal et al., 2002). When investors are concerned with the performance of an organization, managers and executives are removed from their positions more quickly and other executives are less likely to engage in strategies that may be risky (Cannella, 1995). The internal turmoil created by active investors suggests the following hypothesis:

Hypothesis 1c: SO relating to investor orientation will have a significant and negative relationship with performance in small, young firms.

Competitor Orientation

Competitors have been analyzed in most previous empirical studies of SO (Greenley et al., 1996, 1997, 1998; Yau et al., 2007), and is also a component of the market orientation construct (Narver et al., 1990). Competitor orientation is defined as an understanding of the strengths, weaknesses, capabilities and strategies of competitors (Narver et al., 1990), and responsiveness to competitors' activities (Dawes, 2000; Yau et al., 2007). Most often the orientation to competitors in a small business will be for traditional neoclassic economic reasons where competitors are seen as a threat (Freeman, 1984), and are competing for the same customer sales. A keen interest in the strategies of competitors may help counter their actions before damage is done to customer sales or other areas of market share (Lumpkin et al., 1996).

In contrast to the neoclassical economic view of competitors, another orientation especially applicable to small business may be as an alliance of small competitors trying to survive against large corporations. Some small firms

competing in markets with large, well established competitors have found it advantageous to network with other small business competitors to create a larger market presence in terms of buying power, cooperative advertising, and common signage (Brown et al., 1995). In both orientations to competitors, small businesses must be able to monitor, understand, and predict the activities of competitors (Narver et al., 1990). The success of a small businesses ability to orient toward competitors should have a direct effect on the market share, and hence the performance, of a small, young firm. Thus, the following hypothesis is suggested:

Hypothesis 1d: SO relating to competitor orientation will have a significant and positive relationship with performance in small, young firms.

Organizational Context

Many previous studies have shown that the environment has had a moderating effect on the relationship between various constructs and firm performance (Eisenhardt, 1989; Garg et al., 2003; Goll et al., 1997; Li & Simerly, 1998; McArthur et al., 1991; Priem et al., 1995; Simerly et al., 2000; Zahra, 1996). Previous research has included environmental moderators of the relationship between SO and firm performance (Greenley et al., 1996, 1997, 1998). Berman et al. (1999) controlled for the external environment but did not propose an interaction effect, and Yau et al. (2007) did not include moderation. Previous studies of SO attempted to assess change within the context of an organization's resource environment through the choice of external moderators. However, previous work has not included the recommended scales of

environmental dynamism and munificence when studying the organizational context of a firm's SO (Dess et al., 1984a).

This study asserts that environmental dynamism and munificence play a moderating role on the effect of SO on firm performance. Baron and Kenny (1986: 1174) describe a moderator as “a qualitative or quantitative variable that effects the direction and/or strength of the relation between an independent or predictor variable and a dependent or criterion variable.” In the context of this study, environmental dynamism and munificence are quantitative variables that are hypothesized to increase the strength of the relationship between SO and the performance of small, young firms.

The following sections will explore the interaction effect of environmental dynamism and munificence on individual stakeholders as well as offer hypotheses for the moderating effect of organizational context on the SO – firm performance relationship.

Moderating Effect of Environmental Dynamism

Dess and Beard (1984a) define environmental dynamism as instability or turbulence. They further restrict the definition “to change that is hard to predict and that heightens uncertainty for key organizational members” (Dess et al., 1984a: 56). Since the environment can be very fluid, SO may have varying effects on firm performance depending on the environmental state. Therefore, the effect of SO on firm performance may be contingent on the level of environmental dynamism. Small, young firms operate in dynamic environments with a great deal of uncertainty built into the nature of most businesses. Managers that have a greater connection to stakeholders will have more confidence in their business decisions despite the presence of turbulence in the

environment. The elevated sense of uncertainty about an organization's hostile operating environment will tend to sharpen the focus of key members and augment planning for possible contingencies. By increasing reliance on stakeholders during times of high environmental dynamism, key managers of small, young companies have the flexibility to adapt business practices to continue strong relationships with employees, customers, investors and competitors that will support their firm's performance regardless of the dynamism within the environment (Davis et al., 1991; Goll et al., 2004; Li et al., 1998).

The greater the dynamism experienced within a company's environment, the stronger the relationship will be between SO and firm performance. For example, low turnover among employees, a high number of loyal customers, consistency with investor goals, and a clear understanding of competitor strengths and weaknesses are all evidence of a strong stakeholder orientation. Each of these can greatly reduce management anxiety in a dynamic environment. As dynamism increases, the expectation is that there will be a stronger relationship of the independent variable with firm performance. Therefore, it is proposed that when a firm is in a more dynamic environment, there will be a stronger stakeholder orientation with firm performance. For employee, customer, and competitor stakeholder groups, the stronger orientation will be in the form of a more positive relationship (Goll et al., 2004). However, since Cannella (1995) found that heightened uncertainty in the environment make investors quick to change managers and remaining managers less likely to take risks, the investor stakeholder group is expected to have a more negative relationship with performance. Taken together these arguments suggest the following hypotheses:

Hypothesis 2a: The relationship of SO with the performance of small, young firms is moderated by environmental dynamism such that when environmental dynamism is higher there is a more positive relationship of employee orientation with performance.

Hypothesis 2b: The relationship of SO with the performance of small, young firms is moderated by environmental dynamism such that when environmental dynamism is higher there is a more positive relationship of customer orientation with performance.

Hypothesis 2c: The relationship of SO with the performance of small, young firms is moderated by environmental dynamism such that when environmental dynamism is higher there is a more negative relationship of investor orientation with performance

Hypothesis 2d: The relationship of SO with the performance of small, young firms is moderated by environmental dynamism such that when environmental dynamism is higher there is a more positive relationship of competitor orientation with performance.

Moderating Effect of Environmental Munificence

Dess and Beard (1984a) define environmental munificence as capacity. The munificence of a small firm's environment may vary from a growth oriented setting with an abundance of capacity, to a very restricted environment where capacity is difficult to obtain. Therefore, the effect of SO on firm performance will also be dependent on the level of environmental munificence. The ability of a small firm's environment to support growth will be important to an organization such that greater environmental munificence will extend the firm's ability to expand its market share. Demand within the firm and across the industry are the primary factors used in evaluating a firm's environmental munificence (Dess et al., 1984a). The greater the munificence within a small firm's

environment the stronger will be the relationship between stakeholder groups and firm performance.

The growth of the marketplace is considered to be a primary determinant for the long-term viability of an organization (Hofer & Schendel, 1978). The ability of a small firm to capitalize on this growth and generate capacity from its environment permits the generation of slack resources (Cyert & March, 1963). The creation of slack resources is an integral component for a small firm to grow its business, and one which will be reliant upon the closeness of the firm to its stakeholders. For example, employees trained in the principles of quality management may be more inclined to offer suggestions that will improve efficiency of the organization. Slack resources can also provide the ability to rapidly respond to an increase in customer demands, or provide resources for innovation. A growing business and increased sales may certainly garner increased support from investors, and slack resources can also serve to strengthen alliances of small businesses or take advantage of known weaknesses in competitors. Thus it is proposed that when a firm is in an environment with higher munificence, there will be a stronger stakeholder orientation with firm performance. Romanelli (1989) found young firms more likely to survive when demand in the industry was rising; therefore, in each of the stakeholder groups the relationship will be more positive when environmental munificence is higher. However, based on Cannella's findings (1995) of managers being less likely to undertake risky strategies in uncertain environments, when environmental munificence is lower it is proposed that investor orientation will have a weaker relationship with firm performance. These arguments together suggest the following hypotheses:

Hypothesis 3a: The relationship of SO with the performance of small, young firms is moderated by environmental munificence such that when environmental munificence is higher there is a more positive relationship of employee orientation with performance.

Hypothesis 3b: The relationship of SO with the performance of small, young firms is moderated by environmental munificence such that when environmental munificence is higher there is a more positive relationship of customer orientation with performance.

Hypothesis 3c: The relationship of SO with the performance of small, young firms is moderated by environmental munificence such that when environmental munificence is higher there is a more positive relationship of investor orientation with performance, but when environmental munificence is lower there will be a more negative relationship of investor orientation with performance.

Hypothesis 3d: The relationship of SO with the performance of small, young firms is moderated by environmental munificence such that when environmental munificence is higher there is a more positive relationship of competitor orientation with performance.

Methodology

A methodological framework is offered in the next section that supports the testing of hypotheses developed above and will provide data that will aid in better understanding the performance implications of stakeholder orientation in small, young organizations.

Sample and Sampling Procedures

To test the above hypotheses, data will be collected from small, young firms in an 11-county Tulsa, Oklahoma metropolitan area through a field study using mailed questionnaires. Small organizations will be defined as businesses with 5 – 500 employees. The Small Business Association (SBA) varies its definition of a small business depending on the industry to accurately reflect the differences between industries. Although the SBA's number of employees in small businesses range from as few as 100 to as many as 1,500, the overwhelming majority of industries are defined as 500 or fewer¹. Karlsson and Olsson (1998) also found that small and medium-sized enterprises (SMEs) could be defined as 500 or fewer employees in their research. A lower limit of five employees has been set to enhance the response rate by eliminating those firms that are so small they would likely not have the resources or time to reply to a mailed questionnaire. Additionally, a small business must be no older than 12 years to be included in this study. The time it takes for an organization to go beyond entrepreneurial to institutional was found to be in the 12-15 year range in an extensive study by Birch, Haggerty, and Parsons (1993). Also, the twelve-year mark has been used as the differentiation between younger and older firms by many other researchers examining the growth stages of entrepreneurial firms (Begley, 1995; Birch, 1987; Flamholtz, 1990; Kazanjian, 1988). Twelve years will be used as the maximum firm age to be conservative, and also to emphasize that this study is on younger firms.

Using the criteria of 5 – 500 employees and firms that are 12 years or less in age will insure the capture of all firms described as “small” and “young” within the targeted

¹ <http://www.sba.gov/size/> 9/8/06

geographic area. Additionally, to insure a unique database, all firms must be privately owned. Also, to insure the sample is representative of the intended geographic region, firms must have either a single location, or the headquarters of a multiple-location firm, in the 11-county Tulsa metropolitan area. This will provide for a wealth of information not available from secondary sources. The Tulsa, Oklahoma Chamber of Commerce sponsors a Small Business Center with access to more than 48,000 businesses in the targeted area that may be searched based on location, industry, and number of employees. A mailing list of approximately 2,500 firms will be generated that reflect all firms, without regard for industry, in the Tulsa, Oklahoma metropolitan area that meet the aforementioned criteria.

There are several reasons for choosing the source and number of firms for the mailing list. Of the previously discussed empirical publications of SO, all of the Greenley and Foxall studies (1996, 1997, 1998) used primary data sources. Their mailing list came from a sample of 1,000 randomly selected companies by Dun and Bradstreet, although they used a database of UK companies with greater than 500 employees. Berman et al. (1999) used secondary data sources derived from the top 100 firms on the Fortune 500 list, and Yau et al. (2007) also used Dun and Bradstreet to discover primary data sources to sample primarily large corporations. Using a local source such as the Tulsa Chamber of Commerce should provide a better response rate than drawing business names and contacts from a large vendor, for example Dun and Bradstreet. Also, the cover letter that introduces the survey to small business owners will be drafted and signed jointly by the director of the Small Business Center and the Oklahoma State University research team, as well as contain the logos of both organizations. Conducting the study

under the auspices of a local university (i.e. Oklahoma State University) and the local chamber of commerce should increase name recognition among the business contacts and add to the probability of a response.

Cohen (1992) was used as a guide to determine an appropriate sample and mailing list size given a conservative response rate of 10 – 15%. The assumptions that were made was the probability of a Type I error (α) was .05, the probability of a Type II error (β) or alternatively, power ($1 - \beta$) was .80, and the effect size (or the size of the difference between means) was medium, or an effect size that “approximates the average size of observed effects” (Cohen, 1992: 156). Given these assumptions the minimum sample size for this study can be determined to be 97. The large mailing list will help insure an adequate number of responses even with a more conservative response rate. A higher response rate will provide a larger sample size, the advantage of which is greater statistical power. Statistical power or the probability of correctly rejecting the null hypothesis has been a major concern in some previous management research in terms of incorporating power analysis into research design (Cohen, 1992). This consideration of power analysis and the larger mailing list should alleviate concerns over the research design as well as help minimize any departures from normality (Hair, Anderson, Tatham, & Black, 1998).

The field study will be conducted through surveys in mailed questionnaires (Appendix A). Since the questionnaires will be mailed to owners or principals of private organizations, the information collected will be proprietary and not available from any public resource. Highly sensitive information regarding financial data and business environment will be gathered. To insure accuracy in the collection effort, questionnaires

will be sent directly to owners or principals since managers in these top roles are considered to have the most comprehensive knowledge about such issues (Hambrick & Mason, 1984). In firms with 250 – 500 employees, the owner or principal will be asked to give a second copy of the survey to another executive in the company familiar with the organization’s stakeholders. The mailed questionnaire is considered an appropriate approach for surveying organizational processes in the settings where they naturally occur allowing for minimal intrusion by the researcher (McGrath, 1982).

Given that the target of this study is small, private businesses and that previous researchers have shown that it is difficult to collect data from this demographic, a procedure developed by Dillman (1991) will be followed to increase the likelihood of achieving a response. Firms will be sent follow-up letters seven days after the initial mailing. Not only will these letters serve as a reminder to those firms that have not yet completed the survey, but they will also be a “thank you” to those that have already returned the questionnaire. Three weeks after the initial survey has been sent a telephone contact will be made to non-responding firms. Additionally, in an attempt to further increase the response rate, a two dollar donation will be made to a local charity (i.e. Habitat for Humanity or the Tulsa Area Food Bank) chosen by the participating firms, and an “Executive Business Practices Report” will be offered that will highlight the findings in this study.

Measures

All measures used in this study have been validated in past research and will be addressed next. A list of all the scales used in this study in their original form is shown in Appendix B.

Stakeholder Orientation Scale

The scale for stakeholder orientation (SO) was developed by Yau et al. (2007) with eighteen items. The items are divided between the four stakeholder dimensions: customer orientation (five items), competitor orientation (four items), shareholder orientation (five items), and employee orientation (four items). Survey respondents are asked to respond to the items with respect to their company on a 7-point scale. A measure of strategic attention given to each stakeholder dimension can then be assessed based on the respondent's answers. The estimated reliabilities (Cronbach, 1951) reported for this scale are: customer orientation (0.762), competitor orientation (0.668), shareholder orientation (0.753), and employee orientation (0.763), with a total alpha reported as 0.848 (Yau et al., 2007).

This scale could be considered to still be in a developmental phase especially given that this is the first published comprehensive study of stakeholder orientation. Also, the sole study using this scale was conducted in the developing economy of three large cities in China; hence, this will be the first known study to use the SO scale in the developed economy of the U.S., and the first to use small businesses for a database. Convergent and discriminant validity will be assessed with the intent of analyzing the dimensions of SO for this sample of small businesses. Additionally, as this scale has

only been used for studies of large, publicly held corporations, the questions for the shareholder dimension may be particularly less applicable to small, young businesses. The items in this dimension have been changed to reflect an orientation toward investors rather than shareholders. Also, one item in the competitor dimension was worded awkwardly, potentially due to translation, and was re-phrased to improve reliability. In an effort to make the scale more relevant to small, young businesses and to increase its reliability, the scale will then be composed of customer, competitor, investor, and employee orientation. The responses will be measured on a 7-point scale (1 = strongly disagree to 7 = strongly agree).

Environmental Dynamism Scale

The scale for environmental dynamism was developed by Miller and Droge (1986) with five items. The estimated reliability through Cronbach's alpha is 0.74 for this measure. In an attempt to increase the reliability of this measure, two additional environmental dynamism questions were added bringing the number of items in this scale to seven. Additionally, the items have been re-phrased for the survey to match the sentence format used by Yau et al (2007) in the SO scale. The responses will be measured on a 7-point scale (1 = strongly disagree to 7 = strongly agree) and data will be analyzed for convergent and discriminant validity.

Environmental Munificence Scale

The scale for environmental munificence was developed by Fuentes-Fuentes et al. (2004) with five items. They used three items (1-3) that refer to the environment and two

items (4-5) that reflect the influence of competition. Through the scale development process they eliminated items 3 – 5 and, in their confirmatory factor analysis, they report an alpha of 0.89 for the two remaining items.

Most studies that include environmental munificence as a construct operationalize it as a continuous variable(s) using secondary data. The most common data found were sales growth for the relevant industry. The construct was always operationalized as the regression slope coefficient of the value of sales growth over a specific number of years. This technique is not relevant for this study for the following reasons: 1) no specific industry/industries are targeted, 2) the sample targets young firms that may not have been in business long enough to match the coefficient (i.e. studies often used a 10-year span), and 3) the sample will consist of private firms that would not appropriately match public firms in secondary databases. Therefore, this study will use the two items developed by Fuentes-Fuentes et al. (2004) for the environmental munificence scale. To be parsimonious, the two items from the environmental munificence scale and the five items from the environmental dynamism scale will be combined in one section in the actual survey instrument titled “business environment.” The responses will be measured on a 7-point scale (1 = strongly disagree to 7 = strongly agree) and data will be analyzed for convergent and discriminant validity.

Firm Performance Scale

A scale for the measurement of firm performance should encompass both financial and non-financial measures to provide a broader perspective of SO on organizational effectiveness (Venkatraman et al., 1986). However, since many of the

non-financial measures would also overlap with the measurement items of the independent variable, only financial items will be considered in this study. Since the previous empirical studies of SO have used various measures of performance, a parsimonious list of financial items developed from these and other publications (Berman et al., 1999; Greenley et al., 1997, 1998; Gupta & Govindarajan, 1984; Hillman et al., 2001a; Lumpkin & Dess, 1996; Yau et al., 2007) have been developed. The financial items to be measured are: return on investments, sales growth, market share, profit-to-sales ratio, and overall financial performance. Subjective financial performance data will be collected as described by Dess and Robinson (1984b).

All financial performance measures will ask the respondents to assess firm performance over the last twelve months. The scale will ask the respondents to compare their performance relative to their competitors on a 7-point scale (1 = at the bottom of similar firms in the industry to 7 = at the top of similar firms in the industry). The comparison of firm performance to competitors is designed to keep assessments within the same industry and minimize industry effects (Dess, Ireland, & Hitt, 1990). Convergent and discriminant validity will be assessed for each of the items.

Control Variables

The model in Figure 2 suggests a direct effect of SO on firm performance, as well as a moderating effect of organizational context on the SO – firm performance relationship. To control for the possibility of variance, prior research suggests that owner age, firm age, founder status, owner status, firm size, and industry be used as control variables (Begley, 1995; Romano, Tanewski, & Smyrnios, 2001).

Owner Age and Firm Age. Ages of owners and of the firm are areas of concern that may cause systematic variance in this study. Both elements can influence decision making in regard to stakeholders of the firm (Romano et al., 2001). In terms of the age of owners, the small business literature suggests that older owners may be less willing to reach out to external resources (i.e. potential investors) for support of their business (Van der Wijst, 1989). There is also the liability of newness phenomenon (Stinchcombe, 1965) that can affect young owners or young organizations in that they will have less developed relationships and experience with employees, customers, investors, and competitors, and less mature internal systems. Also, the findings of Feltham, Feltham, and Barnett (2005) found significant support for the age of the business owner in explaining the diffusion of decision making to stakeholders. In general, the older the owner the more willing the owner becomes in distributing control to other stakeholders. To control the possibility of a spurious relationship between SO and firm performance, owner age will be controlled.

The age of the firm has often been linked to business life cycle issues (Gersick, Davis, McCollom Hampton, & Lansberg, 1997). Small firms that are in their infancy would likely have less control over certain stakeholders (i.e. customers and competitors) than would firms in the growth stage (Dollinger, 1995). Resources of small, young firms could likewise be less available. Researchers have contemplated that this lack of organizational resources is correlated with performance and that the effects may sometimes be positive and other times be negative (Mosakowski, 1993). For instance, in very young firms the owner or founder may be extremely involved in operations and this commitment could enhance the organizations performance; and as the firm grows it will have greater access to resources that could further improve performance (Brush et al.,

1999). Because of the systematic variance possible, especially in young organizations, the influence of the age of the firm will be controlled in this study.

Founder Status and Owner Status. The entrepreneurship literature contrasts managers of organizations based on their founder status versus owner status and offers some observations on their differences (Begley, 1995). Although both groups of managers aspire to run a business on their own, a founding manager has created a new venture and must assemble the various parts (i.e. employees, customers, investors). A business owner that is not a founder has taken over an existing business and has had the foundation already prepared by someone else. It can be surmised that founding a business would require the founder to already have contacts and experience within the industry, as well as special knowledge or skills unique to the particular business (Duchesneau & Gartner, 1990). For example, the contacts within the industry may stem from personal relationships and develop into a trusted base of employees and investors. Early customers that pledge repeat business could have greater impact on a founder's future decisions with regard to product/service development. Each of these scenarios would tend to produce a greater orientation to stakeholders from founders than from an owner.

When an entrepreneur is contemplating moving into an unfamiliar industry, it may be easier and less risky to purchase a business with an established track record rather than starting a new business. Entrepreneurs who purchase an existing business can be perceived as attempting to lower the entrepreneur's risk in terms of owning a business with a well-known position within a community, and established customers, investors and employees that provide a recognized stream of revenue. Owners can be perceived as

having less invested in a business than a founder, may be less personally involved, and consequently, less invested in SO. Also, Begley (1995) found that young companies being run by their founders have higher ROA, higher sales growth, and higher in risk taking. Consequently, the possibility of systematic variance on the impact of SO on firm performance necessitates the control of founder and owner status in this study.

Firm Size. Steiner (1974) hypothesized that a firm would assume a greater role in being socially responsible the larger the organization grew. The larger an organization becomes, the greater the number of stakeholders that are potentially influenced. Also, there is a reciprocal arrangement in that the greater the size of the firm, the more society will expect in terms of social responsibility and the more attentive the firm must be towards its stakeholders (Steiner, 1974). This hypothesis has been tested in a number of settings with mixed results. Keim (1978) examined the philanthropic efforts of organizations and found a curvilinear relationship to firm size. His findings indicate a positive relationship among smaller firms and increasing philanthropic gifts over time, but a negative relationship between larger firms and increasing philanthropic gifts over time. The findings seem to show that as firms grow their gift giving increases up to a certain point and as the firm becomes large their giving trends down. Also, Kedia and Kuntz (1981) found a negative relationship between the percentage of charitable contributions and a firm's size, again indicating a negative trend in gift giving as a firm grew larger. Finally, Orlitzky (2001) conducted a three-variable meta-analysis by examining three different bivariate relationships between firm size, corporate social performance, and firm financial performance including 41 studies with an N = 6889. He found that firm size did not confound the relationship between corporate social

performance and firm financial performance suggesting that all firms regardless of size could benefit from the stakeholder relationships generated by corporate social performance.

In the preceding examples, firm size was defined as the scale of operations in an organization (Kimberly, 1976). The operationalization of the scale was different between the various studies; but this is a strength rather than a weakness (Cook & Campbell, 1979). For example, firm size defined as sales revenue or number of employees with positive correlations indicate the “measurement of the same underlying construct and do not impair the validity of the meta-analysis” (Orlitzky, 2001 :172). Researchers are urged to provide rationale for the operationalization of the size of a firm when including it in a study since there is little theoretical development of the construct of size (Kimberly, 1976).

Stakeholder theory suggests that a firm’s ability to orient actions to stakeholders is a function of the size of a firm or the scale of operations (Kimberly, 1976; Steiner, 1974). This may happen because as a small, young firm grows, the business will attract the attention of a greater number of stakeholders and because managers recognize that the ever growing number of stakeholders is a source of growth (Burke, Logsdon, Mitchell, Reiner, & Vogel, 1986; Waddock & Graves, 1997). Also, the managers of a young business may realize as the firm grows older, they must continue to be attentive to stakeholder demands in order to grow the business. Conversely, at some point in the firm’s maturity this need for attention to stakeholder demands may outstrip the firm’s abilities. Previous studies of stakeholder management have used various measures to represent the size of the firm including number of employees (Blackburn, Doran, &

Shrader, 1994; Dooley & Lerner, 1994; Waddock et al., 1997). Because stakeholder orientation and a firm's performance may vary systematically with firm size especially in small, young organizations that may be in rapid growth patterns, firm size will be controlled through the number of employees.

Industry. Since the dependent variable is firm performance, the operating environment may have a considerable impact on the outcome (Pfeffer et al., 1978). The industry of the subject companies represent a significant variable and one in which other organizational theorists have recommended as a control measure (Boyd, 1990; Dess et al., 1984a). In an effort to isolate the impact of the operating environment, industry is measured at the 2-digit Standard Industrial Classification (SIC) code level and will be used as a control variable in the model.

Questions that will be used to support analysis of all the control variables are located in section five of the survey instrument and are directed toward the age of the owner, age of the firm, founder status, owner status, number of employees, and industry.

Analytical Techniques

The next section will describe the methodological processes that will be employed to develop and examine descriptive statistics for the independent and dependent variables, assess the impact of SO on firm performance, and test moderation of the SO-firm performance relationship.

Descriptive Statistics

Once the full study is complete, descriptive statistics for all study variables through univariate and frequency procedures will be conducted, and reliabilities will be computed. Simple bivariate correlations will be computed to ensure that all study relationships are in the expected direction. Scatter plots will be examined to determine if there are any linear relationships between the independent variable and the dependent variable. The P-P plot is another technique that will be used to assess normality of the variables. Studentized residuals and standardized predicted values of the dependent variable are two more plots that will be examined for patterns in the data. Ideally, there should be no pattern in the plotted data in order to assume homogeneity of variance. Also, the Pearson product-moment correlations will be examined to determine the extent of correlation between the independent and dependent variables, and to assess the potential of multicollinearity. Finally, the item means, standard deviations, item-item correlations, and item-total correlations will be studied.

Testing SO with Firm Performance

After Pearson product-moment correlations have been examined as described above, multiple regression analysis will be used to test Hypotheses 1a through 1d. Specifically, the employee orientation, customer orientation, investor orientation, and competitor orientation will all be tested independently to determine if they are unique predictors of SO. The regression equations will be:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + \text{error} \quad (3.1)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + \text{error} \quad (3.2)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_8X_8 + \text{error} \quad (3.3)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_9X_9 + \text{error} \quad (3.4)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_{10}X_{10} + \text{error} \quad (3.5)$$

where

Y is firm performance

X₁ is owner age (used as a control variable)

X₂ is firm age (used as a control variable)

X₃ is founder status (used as a control variable)

X₄ is owner status (used as a control variable)

X₅ is size or number of employees (used as a control variable)

X₆ is industry (used as a control variable)

X₇ is employee orientation

X₈ is customer orientation

X₉ is investor orientation

and X₁₀ is competitor orientation

In formula 3.1 of the regression analysis, the first six factors are used as control variables (i.e. owner age, firm age, founder status, owner status, size [i.e. number of employees], and industry). In formulas 3.2 through 3.5, the last factor prior to the error calculation represents the four dimensions of SO respectively, as the independent variables (i.e. employee orientation, customer orientation, investor orientation, and competitor orientation). To find support for any dimension of SO, the coefficient must be significant for the respective dimension (i.e. b_7X_7 , b_8X_8 , b_9X_9 , and $b_{10}X_{10}$) in formulas 3.2

through 3.5, and there must be significant improvement in the R^2 and F-statistic from formula 3.1 to the respective dimension in formulas 3.2 through 3.5.

Testing the Moderators

Hypotheses 2a through 2d propose that environmental dynamism will have a moderating effect on the individual dimensions of SO and firm performance relationship. Hypotheses 3a through 3d propose the same moderating effect by environmental munificence. The hypotheses will be tested using moderated regression analysis to determine the extent that the moderator variable changes the relationship between the individual dimensions of SO and firm performance. The proposed moderator variables are environmental dynamism and environmental munificence. The following regression equations will be used to test for moderation:

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_m + \text{error} \quad (3.6)$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5X_5 + b_6X_6 + b_7X_7 + b_8X_m + b_9X_7X_m + \text{error} \quad (3.7)$$

where

Y is firm performance

X_1 is owner age (used as a control variable)

X_2 is firm age (used as a control variable)

X_3 is founder status (used as a control variable)

X_4 is owner status (used as a control variable)

X_5 is size or number of employees (used as a control variable)

X_6 is industry (used as a control variable)

X_7 is the individual SO dimension (i.e. employee orientation, customer orientation, investor orientation, and competitor orientation)

and X_m is the proposed moderator variable

In formula 3.6 of the moderated regression analysis, the first six factors are used as control variables (i.e. owner age, firm age, founder status, owner status, size [i.e. number of employees], and industry), the seventh factor is the independent variable (i.e. the individual dimensions of SO), and the last factor is the interaction term (i.e. environmental dynamism and environmental munificence). In formula 3.7, the last factor added represents the interaction effect of the moderator variable with the individual dimensions of SO. For each moderator variable (i.e. environmental dynamism and environmental munificence), formula 3.6 will be run with each dimension of SO (i.e. X_7). Subsequently, formula 3.7 will be run with each combination of moderator variable and SO dimension. In the absence of an interaction, main effect will be examined. To find support for any of the moderation hypotheses, the coefficient must be significant in the moderation factor (i.e. $b_9X_7X_m$), and there must be significant improvement in the respective R^2 and F-statistic from formula 3.6 to 3.7.

Testing the Second Research Question

The second research question proposed in this study: Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms? A statistical model will be developed using forward stepwise regression analysis to determine which stakeholder group is the best predictor of firm performance.

The advantage of using forward stepwise regression is, through a sequence of F-tests to control the inclusion of variables, each step of the iterative process comes closer to determining the true value of the contribution of each predictor (i.e. stakeholder group). The following stepwise regression equations will be used to determine which stakeholder group will be the best predictor of firm performance:

$$Y = b_0 + b_1X_1 \quad \text{Step 1} \quad (3.8)$$

$$Y = b_0 + b_1X_1 + b_2X_2 \quad \text{Step 2}$$

$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 \quad \text{Step 3}$$

where

Y is firm performance

X_1 is the individual SO dimension (i.e. employee orientation, customer orientation, investor orientation, or competitor orientation) with the largest zero-order correlation to firm performance.

X_2 is another individual SO dimension selected based on the next highest zero-order correlation.

From step 3 forward, all the variables already in the equation are examined for removal according to their usefulness in predicting firm performance before adding another predictor (i.e. X_3). The criterion for inclusion for each predictor is a statistically significant F-test after adding a new predictor. Predictors that were considered useful at an earlier step, but are no longer evaluated as such, will be removed. Therefore, in the final analysis, it will be possible to examine the results to determine which predictors (i.e. SO dimensions) have the strongest relationship with the performance of small, young firms.

Summary

This chapter began by re-stating the two essential research questions for this study: How does stakeholder orientation relate to performance of small, young firms? And the second question: Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms? Stakeholder theory, resource dependency theory, and the theory of the firm were used to establish the theoretical development of the hypotheses. A discussion of each of the stakeholder dimensions and moderators were presented next with arguments developed to support the hypotheses for the direct effect of stakeholder orientation and the moderating effect of organizational context. Finally, a methodological framework was offered that supported the testing of hypotheses to better understand the performance implications of stakeholder orientation. Chapter IV will present detailed findings and analysis of the study.

CHAPTER IV

RESULTS

Chapter IV is organized into three sections that describe the results from the research set forth in Chapter III. The first section offers a description of the data collection process and descriptive statistics from the data sample. The second section tests statistical assumptions related to the use of regression analysis. The third section reports the results from hypotheses and research questions presented in Chapter III.

Data Collection Process and Descriptive Statistics

As described in Chapter III, the target data for this study used the criteria of 5 – 500 employees and firms that were 12 years or less in age within the Tulsa metropolitan area. Additionally, to insure a unique database, all firms were privately owned. Also, to insure the sample was representative of the intended geographic region, firms had to have either a single location, or the headquarters of a multiple-location firm, in the 11-county Tulsa metropolitan area. The field study was conducted through mailed questionnaires sent to owners or principals from a database query that matched the study requirements from the Small Business Center of the Tulsa Metropolitan Chamber of Commerce. The approval of the Tulsa Metropolitan Chamber of Commerce was evident

to all recipients since the Chamber of Commerce allowed the use of the Chamber logo on the cover letter with the Oklahoma State University logo. In addition, the Small Business Program Director and the Oklahoma State University researchers' signatures appeared on the cover letter.

The field study was mailed to 2268 small businesses that met the targeted profile in the Tulsa metropolitan area. After the initial mailing of surveys and a follow-up letter designed as a reminder/"thank you" based on a procedure developed by Dillman (1991), 77 replies were received for a 3.4% response rate. After further analysis, seven of the replies were found to have missing data and deemed unusable leaving 70 responses for a 3.1% response rate.

In an effort to increase the response rate, a third mailing was developed from the same database comprised of all 377 small businesses that had web addresses and an additional 123 randomly sampled for a total of 500. The third mailing was designed as a postcard reminder and the database was also used as the source for phone calls to 277 businesses, with the objective of having the small business owners complete the survey and return it through email. It was thought that businesses with web addresses would be more inclined to reply to surveys through email. The combined result of postcard reminders and phone calls brought an additional 35 completed surveys for a total of 105 responses and a 4.6% response rate. Missing data was less of an issue with the second set of responses since problems could be resolved quickly via return email.

During phone calls to the 277 businesses in the final sample, it was found that phone numbers for 54 businesses were no longer in service or the business being called had been sold, was out of business, had gone public, or the owner had retired. This

represented a 19.5% error rate in the database provided by the Small Business Center. Knowledge of the error rate was not available earlier for the first two mailings since they were sent through the bulk mail process and return receipt was not available. Extrapolating a 19.5% rate of bad addresses for the entire database would reduce the valid business addresses from 2268 to 1826. This would improve the response rate for the initial mailing of usable responses to 3.8% and the total response rate after all efforts to 5.75%.

Response rates for mailed surveys in small business research have historically been lower than response rates for research on large businesses or the general population (Bartholomew & Smith, 2006). Nearly a third of articles using a mailed survey in entrepreneurship or small business journals show a response rate of less than 25% (Aldrich & Baker, 1997). Contributing to an even lower response rate are factors such as targeting the CEO of a small business as well as young firms (Bartholomew et al., 2006). Small businesses have fewer slack resources than do larger firms that would permit them to take on additional tasks (e.g. responding to surveys) (Aldrich, 1979). CEO's are particularly difficult respondents since they are typically targeted as the individual with the most knowledge of the business, yet have the least amount of resource cushion, and the result is substantially lower response rates (Baruch, 1999). Last, young firms concentrating on survival tend to have the least amount of slack resources, specifically time, to respond to surveys (Bartholomew et al., 2006).

A higher response rate is always better, but there are no rules that govern an acceptable response rate (Roth & BeVier, 1998). In fact, response rates appear to be declining among business mailed surveys and specifically when small businesses are

targeted. The response to the “Small Business Economic Trends” annual survey has fallen by one-third over the decade of the nineties (Dennis & Dunkelberg, 2000) and Aldrich and Baker (1997) have found similar results among entrepreneurial populations. A contributing cause to the low response rate for this survey may have been timing. The initial wave of mailings was sent October 1st, 2008 and the second wave was mailed on October 10th, 2008. In retrospect, October was the first month when many businesses suffered from an unprecedented slowdown in the U.S. economy and when many small businesses found little slack time to participate in a survey. Additionally, the third wave of mailing of postcards was sent on December 11th, 2008, but many businesses received the reminder over the holidays. Small businesses that are cyclical in nature would either be extremely busy through the holidays or be closed for extended periods of time, both of which would result in low participation rates for a survey. Since there are no rules that govern acceptable response rates (Roth et al., 1998), the results of the first and second wave of responses will be compared to the third wave to test for non-response bias in the “Testing of Assumptions” section.

Initial examination of the 105 small businesses that comprised the study confirmed that all fit the established parameters of small (i.e. 5-500 employees) and young (i.e. 12 years or less in age). All firms were also privately owned, had either a single location or the headquarters of a multiple-location firm in the 11-county Tulsa metropolitan area, and the owner or a principal officer completed the survey.

Power analysis was re-computed to check the ability of the overall sample size to reject a false null hypothesis. The assumptions that were made was the probability of a Type I error (α) was tested and found to be .05. Four predictors represented the four

stakeholder orientation dimensions. An R^2 of .219 was observed from a preliminary regression run, with an overall sample size of 105 surveys. Given these assumptions, the power analysis computed was 0.995. This provides sufficient assurance that the sample has the ability to detect a significant effect in the regression analysis.

Descriptive statistics of the data sample were computed. Those reflecting the control variables and selected demographics are shown in Table 4.1.

Table 4.1 – Descriptive Statistics for Demographic and Control Variables:

Variable	N	Mean	SD	Min	Max
No. of Employees	105	39.63	70.878	5	400
Owner Age	105	48.51	11.247	25	78
Firm Age	105	8.45	2.872	3	12
Founder Status	105	0.73	0.444	0	1
% Ownership	105	50.66	37.812	0	100
Years in Company	105	7.66	3.234	1	12
Years Supervisory Exp	105	15.75	11.421	0	56

Since the control variable “Founder Status” was coded as a dichotomous variable (i.e. the survey asks whether the respondent was one of the founders: yes or no), the description in Table 4.1 requires additional explanation. There were 77 respondents (73.3%) that identified themselves as the founder of the organization. Additionally, 28.6% of the respondents were women, and over 34% of all respondents held advanced degrees beyond the bachelor’s level. There were 14.2% that identified themselves as minority owners or principals (i.e. American Indian, Black, Asian, or Hispanic), and the majority of all respondents (54.3%) owned half or more of the small business. The businesses were truly small in that 65.7% had less than 20 employees, although six employed between 200 and 400 workers. Even though the majority of businesses (80%)

identified themselves as representing the service sector, the small businesses in the sample included many industrial and manufacturing sectors as well. The full sample of firms by Standard Industrial Classification (SIC) Code is in Table 4.2. Nearly half of the respondents chose to remain anonymous; therefore, it was not possible to identify the industry they represented.

Table 4.2 – Primary SIC Code of Respondents

Primary SIC	SIC Description	Number
16	Highway & Street Construction	1
17	Plumbing, Heating, A/C, Electrical, Masonry, Roofing	7
25	Partitions & Fixtures, Except Wood	1
34	Miscellaneous Structural Metal Work	1
35	Internal Combustion Engine, Metalworking, NEC	3
37	Aircraft Parts & Equipment	1
42	Local Trucking without Storage	1
46	Crude Petroleum Pipelines	1
47	Freight Forwarding	1
50	Supplies and New Parts Wholesale	3
51	Petroleum Products Wholesale	1
52	Retail Nurseries	2
54	Dairy Products Stores	1
59	Drug, Gift, Book, Novelty & Souvenir Stores	3
62	Investment Advice	2
64	Insurance Agents, Brokers & Service	1
67	Oil Royalty Traders	1
73	Business Services, NEC	6
75	Top, Body & Upholstery Repair & Paint Shops	2
76	Refrigeration & Air Conditioning Service & Repair	1
79	Membership Sports & Recreation Clubs	1
80	Offices & Clinics of Doctors of Medicine	5
83	Residential Care	1
87	Engineering & Management Consulting Services	6
	No Response/Unknown	52

Multicollinearity may have harmful effects in the interpretation of results in multiple regression. The use of four dimensions of SO as predictors make it prudent to

assess the multiple correlation between the independent variables to assess the possibility of multicollinearity. To analyze the model for the presence of multicollinearity and identify specific variables that may cause multiple correlations, a two-step process was used (Hair, Anderson, Tatham, & Black, 1998). Collinearity diagnostics were generated as reported in Table 4.3.

Table 4.3 – Collinearity Diagnostics

Dimension	Eigenvalue	Condition Index	Variance Proportions				
			Constant	Emp	Cust	Inv	Comp
Constant	4.729	1.000	.00	.00	.00	.01	.00
Employee	.162	5.396	.01	.02	.01	.81	.00
Customer	.061	8.781	.05	.00	.02	.13	.86
Investor	.036	11.387	.07	.97	.04	.00	.12
Competitor	.011	20.956	.87	.01	.92	.05	.02

Step 1 in the process was to identify all condition indices above thirty. Thirty is the most commonly used threshold value, although fifteen is sometimes used to be more conservative (Hair et al., 1998). None of the condition indices exceeded thirty, and competitor orientation is the only predictor to exceed fifteen.

Step 2 identifies all variables with variance proportions above 90% for the predictors with condition indices exceeding the threshold. A collinearity problem is thought to exist when a predictor that exceeds the condition index threshold “accounts for a substantial proportion of variance (.90 or above) for *two or more* coefficients” (Hair et al., 1998b: 220). The competitor orientation predictor, which exceeded the conservative value of fifteen in the condition index, has only one coefficient greater than .90. Therefore, multicollinearity may be assumed not to influence the predictors of the model.

Additionally, high eigenvalues indicate predictors that account for much of the variance in the cross-product matrix and those closer to zero explain little variance. Based on the reported eigenvalues it can be expected that employee orientation will explain the most variance followed by customer, investor, and competitor orientation.

Finally, simple bivariate correlations were calculated to ensure all study relationships were in the expected direction. Pearson correlations, means, and standard deviations are reported for the overall sample. Nine of the 79 correlations (11.4%) are significant at the $p < .01$ level, and 22 of the 79 (27.8%) are significant at the $p < .05$ level. This includes an aggregated measure of firm financial performance, which is used as the dependent variable throughout the study. Isolating the aggregated SO dimensions, Table 4.4 presents the Pearson correlation coefficients on the upper diagonal.

Table 4.4 – Correlation Table of SO Dimensions

	Employee	Customer	Investor	Competitor
Employee	1.000	.374**	.230*	.449**
Customer		1.000	.008	.295**
Investor			1.000	.413**
Competitor				1.000

* $p < .05$, ** $p < .01$

All correlations were significant at the $p < .05$ level or greater with the exception of customer and investor orientation. All other correlations were significant at the $p < .01$ level with the exception of employee and investor orientation. The complete results for the overall sample including Pearson correlations, means, and standard deviations are presented in Table 4.5 on the main diagonal.

Table 4.5 – Correlation Table of Descriptive Statistics for all SO Study Variables

	M	SD	1	2	3	4	5	6	7	8	9	10	11	12	13
1.Employee	4.97	1.32		.374 **	.230 *	.449 **	.111	.206 *	.110	-.094	.017	-.055	.000	-.023	.158
2.Customer	5.97	0.91			.008	.295 **	.303 **	.004	.210 *	-.007	.243 **	.154	-.065	.134	.141
3.Investor	3.12	1.64				.413 **	.277 **	.040	.248 *	-.155	-.077	-.044	.157	-.058	.142
4.Competitor	4.26	1.48					.174 *	.031	.205 *	-.050	-.024	.057	.005	-.016	.079
5.EnvDynamism	3.79	1.12						.177 *	.172 *	.006	.146	-.013	.031	-.097	.128
6.EnvMunificence	4.59	1.49							-.102	-.163 *	-.009	-.010	-.100	.019	.288**
7.Owner Age	48.51	11.25								.098	.203 *	.172 *	.075	.034	-.004
8.Firm Age	8.45	2.87									.117	-.030	-.096	-.003	-.183*
9.Founder	.73	.44										.622 **	-.145	-.129	.019
10.Percent Owner	50.66	37.81											-.185*	-.044	-.011
11.Number of Employees	39.63	70.88												-.057	.104
12.Srv. or Mfg.	1.20	.40													-.058
13.Perf12Mos Overall Financial	4.80	1.58													

*p<.05, **p<.01

Testing of Assumptions

Before proceeding with the regression analyses and examination of the research questions, tests were conducted to investigate methodological assumptions related to multiple regression analysis and the specific database sample. The database sample was collected in two waves. The first wave consisted of the initial mailing and a reminder/thank-you note mailed ten days later. The second wave was a postcard with telephone calls that began sixty days later. The two waves accounted for 66.6% and 33.4% of the responses, respectively. Since the second wave of responses was based on additional contact efforts, it is feasible that random selection of survey participants could have been violated. This represents a threat to statistical conclusion validity. Therefore, to test for non-response bias between the two waves of respondents, differences in firm size, firm age, owner age, founder status, and ownership percentage (i.e. all control variables, except for industry which is a categorical variable) were examined. Table 4.6 represents the results from independent t-tests.

Table 4.6 – Test of Control Variables for Non-Response Bias

	Wave	N	Mean	SD	Std. Error Mean
# of Emp.	1	70	39.13	67.050	8.014
	2	35	40.63	79.002	13.354
Firm Age	1	70	7.93	2.946	0.352
	2	35	9.49	2.442	0.413
Owner Age	1	70	47.84	11.531	1.378
	2	35	49.86	10.691	1.807
Founder	1	70	0.70	0.462	0.055

	2	35	0.80	0.406	0.069
% Owner	1	70	48.09	38.983	4.659
	2	35	55.80	35.335	5.973

Each of the control variables were also subjected to a Pearson chi-square test and no significant differences were detected between the two waves of respondents. The difference between the first and second wave of respondents showed the following goodness-of-fit indices: firm size (i.e. number of employees) ($\chi^2_{df=37}=36.648$), firm age ($\chi^2_{df=9}=15.706$), owner age ($\chi^2_{df=40}=35.186$), founder status ($\chi^2_{df=1}=1.193$), and percentage of ownership ($\chi^2_{df=24}=28.096$), all at $p>.05$.

In addition to the control variables, three more goodness-of-fit tests were run to examine potential differences between small businesses that reported having less than twenty employees and those with twenty or more, ownership percentage split into four categories (i.e. those with no ownership, 1-49% ownership, 50-99% ownership, and 100% ownership), and those reported as service versus manufacturing firms. No significant difference was found for the four categories of ownership percentage ($\chi^2_{df=3}=1.476$, $p>.05$); however, there was a significant difference in both the number of employee's category ($\chi^2_{df=1}=10.371$, $p=.001$), and the service versus manufacturing category ($\chi^2_{df=1}=37.800$, $p=.001$). Since size, as determined by number of employees, was already included as a control variable, no further action was required. Even though industry was also included as a control variable, the chi-square statistic indicates small businesses that classify themselves as either service or manufacturing may result in significant differences. Therefore, a service versus manufacturing variable was added to the model as a control variable. With this additional control variable, it may be assumed

that there is no significant difference between the first and second wave of respondents and both waves were combined into an overall sample.

Multiple regression techniques were used to examine the results of the research design, such as the independent variables being unique predictors of the dependent variable. Statistical conclusions from multiple regression depend on significant improvement in the R^2 and F-statistic; therefore, an assumption of normality through histograms, scatter plots, and normal probability plots was examined.

Normality assumes that the population distribution was normal and the histogram reflected a distribution of standardized residuals that approximated the normal curve, although there were two bars beyond -2 standard deviations that were not reflected on the positive tail. Hair et al. (1998b) note that histograms of standardized residuals are often used for simplicity in tests of normality; however, they are particularly difficult with smaller samples. They recommend using scatter plots and normal probability plots as a better method.

Scatter plots and normal probability plots differ from histograms in that the normal distribution is shown as a straight diagonal line and the standardized residuals are plotted for comparison with the diagonal. In both graphs, the distribution of standardized residuals closely followed the diagonal and appeared to be normal.

The final assumption tested is equality of variance. Levene's test for homogeneity of variance of the error term was computed for each of the control variables. Statistical tests for heteroscedasticity (i.e. the presence of unequal variances) is highly recommended because it is less affected by departures from normality (Hair et al.,

1998). Each of the control variables were measured with a non-significant f-statistic indicating that equal variances could be assumed among the error terms.

Hypotheses and Research Questions

The first question this research sought to answer was, “How does stakeholder orientation relate to performance of small, young firms?” Three sets of hypotheses were proposed to help answer the question. The first set of hypotheses targeted the direct effect of stakeholder dimensions with small firm financial performance. The second set of hypotheses aimed at the moderating effect of environmental dynamism on the result of stakeholder dimensions with performance. The third set of hypotheses intended to examine the moderating effect of environmental munificence on the outcome of stakeholder dimensions with performance. The second research question addressed in this study was, “Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms?”

Before testing of the hypotheses began, a critical analysis was conducted on the stakeholder orientation items. The items used in the survey had been recently developed and tested in three major Chinese cities (Yau et al., 2007). Exploratory factor analysis of the 18 items that make up the SO scale using principal component analysis and varimax rotation with Kaiser normalization revealed that stakeholder orientation was comprised of four factors. The final rotated factor solutions converged after five iterations that mirror the four dimensions presented by Yau et al. (2007). The rotated component matrix is shown in Table 4.7 with extractions less than .400 suppressed for clarity.

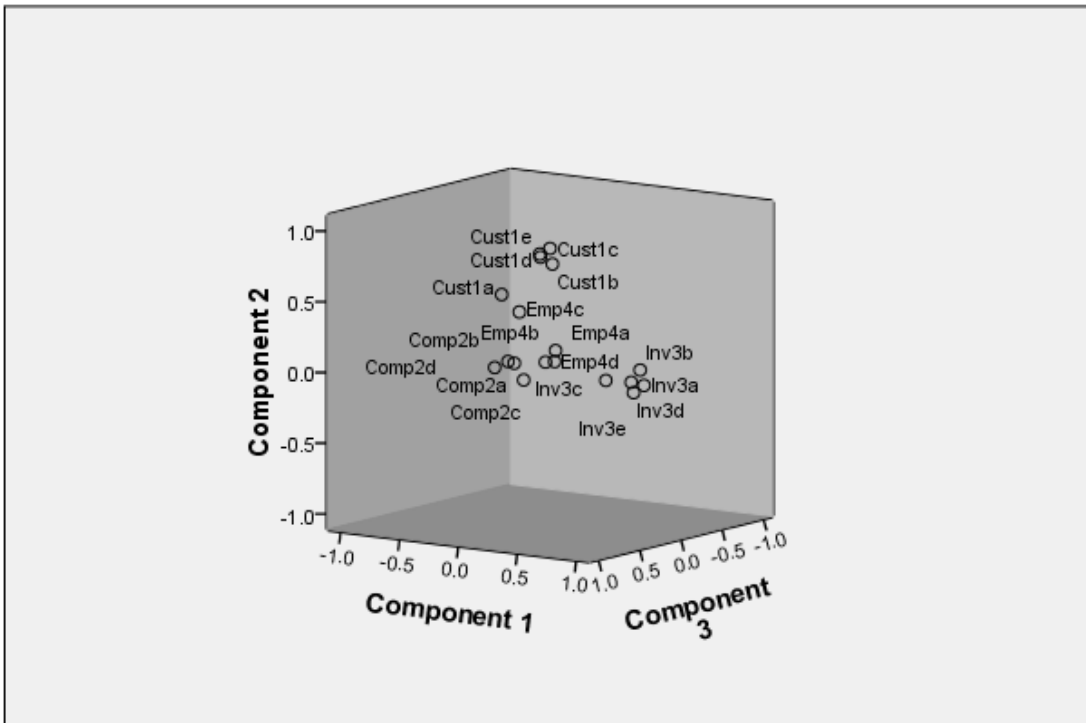
Table 4.7 – Rotated Component Matrix

	Component			
	1	2	3	4
Customer 1a		.524		
Customer 1b		.731		
Customer 1c		.837		
Customer 1d		.790		
Customer 1e		.793		
Employee 4a				.836
Employee 4b				.850
Employee 4c				.637
Employee 4d				.525
Investor 3a	.847			
Investor 3b	.809			
Investor 3c	.753			
Investor 3d	.786			
Investor 3e	.838			
Competitor 2a			.627	
Competitor 2b			.766	
Competitor 2c			.751	
Competitor 2d			.799	
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.				
a. Rotation converged in 5 iterations.				

Since there were more than two factors extracted, a three dimensional plot was produced with the factor space defined by the first three factors. The component plot is shown in Figure 3 with Component 1 defined as investor orientation, Component 2 as customer orientation, and Component 3 as competitor orientation.

Figure 3 – 3-D Component Plot of SO

Component Plot in Rotated Space



Reliability was examined using Chronbach’s Alpha for each of the dimensions of SO and compared to the reliability reported in the original Yau et al. (2007) study. The current study found substantially stronger reliabilities in three of the four dimensions and only .012 weaker in the employee orientation. All reliabilities were over 0.70, the lower acceptable limit for Chronbach’s Alpha (Hair et al., 1998), and most were over .80. Comparative statistics of the alpha coefficient between Yau et al. (2007) and this study are shown in Table 4.8.

Table 4.8 – Chronbach’s Alpha Comparison

Dimension	Yau et al. (2007) Chronbach’s Alpha	Current Chronbach’s Alpha
Employee Orientation	0.763	0.751
Customer Orientation	0.762	0.817
Investor Orientation	0.753	0.887
Competitor Orientation	0.668	0.792
Total SO Scale	0.848	0.852

The first set of hypotheses directed at the first research question was tested using multiple regression analysis to determine the influence of the four SO dimensions on small, young business’s financial performance. Specifically, hypotheses 1a, 1b, and 1d posited that employee, customer, and competitor orientation, respectively, would have a significant and positive effect on performance in small, young firms. Hypothesis 1c suggested that investor orientation would have a significant and negative effect on performance in small, young firms.

Since the regression equations were designed to include all control variables, including the newly added service/manufacturing variable that was found to be significant during the examination of first and second wave responders, the first regression equation tested only control variables. None of the control variables, including the service/manufacturing variable, were significant in the dependent variable (Table 4.9). Control variables were then excluded and regression analysis was conducted for each of the predictors. Results of the regression analyses revealed that employee,

customer, investor, and competitor orientation were not significant predictors of financial performance in small, young firms. Thus, hypotheses 1a through 1d were not supported. The analysis of variance tables from the regression analysis for each SO dimension showing the sum of squares, degrees of freedom, mean square, F-statistic, and significance level are shown in Tables 4.10 through 4.13.

Table 4.9 – ANOVA Table for Control Variables

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.352	7	1.193	.696	.676 ^a
	Residual	166.370	97	1.715		
	Total	174.722	104			

a. Predictors: (Constant), Srv or Mfg, Firm Age, % Owner, PrimarySic, Owner Age, No of Emp, Founder

b. Dependent Variable: AggFinPerf12Mos

Table 4.10 – ANOVA Table for Employee Orientation

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.348	1	4.348	2.629	.108 ^a
	Residual	170.374	103	1.654		
	Total	174.722	104			

a. Predictors: (Constant), AggEmp

b. Dependent Variable: AggFinPerf12Mos

Table 4.11 – ANOVA Table for Customer Orientation

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.465	1	3.465	2.084	.152 ^a
	Residual	171.258	103	1.663		
	Total	174.722	104			

a. Predictors: (Constant), AggCust

b. Dependent Variable: AggFinPerf12Mos

Table 4.12 – ANOVA Table for Investor Orientation

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.528	1	3.528	2.122	.148 ^a
	Residual	171.195	103	1.662		
	Total	174.722	104			

a. Predictors: (Constant), AggInv

b. Dependent Variable: AggFinPerf12Mos

Table 4.13 – ANOVA Table for Competitor Orientation

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.104	1	1.104	.655	.420 ^a
	Residual	173.618	103	1.686		
	Total	174.722	104			

a. Predictors: (Constant), AggComp

b. Dependent Variable: AggFinPerf12Mos

The second set of hypotheses proposed environmental dynamism as a moderator of the SO – firm financial performance relationship and were tested with moderated multiple regression analysis. Hypothesis 2a stated that the relationship of SO with the performance of small, young firms would be moderated by environmental dynamism such that when environmental dynamism was higher, there would be a more positive relationship of employee orientation with performance. Hypotheses 2b and 2d posited the same moderating effect of environmental dynamism with the exception of replacing employee orientation as the independent variable with customer and competitor orientation, respectively. Hypothesis 2c proposed the opposite, or negative, relationship between investor orientation and performance when environmental dynamism was high.

Results for hypothesis 2a found moderate support for environmental dynamism interacting with customer orientation (i.e. Hypothesis 2b) ($\beta=1.843$, $p<.10$), investor orientation (i.e. Hypothesis 2c) ($\beta=.713$, $p<.10$) and competitor orientation (i.e. Hypothesis 2d) ($\beta=.852$, $p<.10$) to predict small firm financial performance. However, no support was found for environmental dynamism interacting with employee orientation (i.e. Hypothesis 2a) ($\beta=.742$, $p=.131$). The main effect was also examined and found to be not significant ($p=.193$) for environmental dynamism as a predictor of firm financial performance. Therefore, hypothesis 2a was not supported, and hypothesis 2b, 2c, and 2d were moderately supported. Table 4.14 provides the test results of moderated regression analysis for environmental dynamism.

Table 4.14 – Moderated Regression Results for Environmental Dynamism

Hypothesis	Significance	Beta	R ²	F-Statistic	Support
2a (Employee)	.131	.742			Not Supported
2b (Customer)			.028	1.460	
2b w/interaction	.052	1.843	.064	2.288	Moderate Support
2c (Investor)			.029	1.506	
2c w/interaction	.087	.713	.057	2.017	Moderate Support
2d (Competitor)			.020	1.028	
2d w/interaction	.060	.852	.054	1.913	Moderate Support

The third set of hypotheses proposed environmental munificence as a moderator of the SO – firm financial performance relationship and were also tested with moderated multiple regression. Hypothesis 3a stated that the relationship of SO with the performance of small, young firms was moderated by environmental munificence such that when environmental munificence was higher, there was a more positive relationship of employee orientation with performance. Hypotheses 3b, 3c, and 3d posited the same moderating effect of environmental munificence with the exception of replacing employee orientation as the independent variable with customer, investor, and competitor orientation, respectively. Hypothesis 3c also proposed when environmental munificence was lower; there would be a more negative relationship of investor orientation with performance.

Significance was found for environmental munificence interacting with customer orientation (i.e. Hypothesis 3b) ($\beta=1.517, p<.05$) based on a priori theorizing; however, the F-statistic did not improve once the regression formula included the interaction

variable. Therefore, no support was found for customer orientation, and there was no significance for employee, investor, or competitor orientations (i.e. Hypotheses 3a, 3c, and 3d). As a result, no support was found for any environmental munificence hypotheses. Main effect was also examined and found to be significant ($p=.003$) for environmental munificence as a predictor of firm financial performance. Table 4.15 provides the test results of moderated regression analysis for environmental munificence.

Table 4.15 – Moderated Regression Results for Environmental Munificence

Hypothesis	Significance	Beta	R ²	F-Statistic	Support
3a (Employee)	.315	.548			Not Supported
3b (Customer)			.102	5.818	
3b w/interaction	.035	1.517	.141	5.532	Not Supported
3c (Investor)	.851	-.074			Not Supported
3d (Competitor)	.504	.298			Not Supported

As a post hoc examination of the organizational context moderators, environmental dynamism and environmental munificence were combined into a single variable. Moderated regression analysis was conducted to examine the interaction effect of the combined environmental variable on each of the dimensions of stakeholder orientation.

Support was found for the combined environmental variable interacting with customer orientation ($\beta=2.309$, $p<.05$), but no support was found for employee, investor, or competitor orientations. The main effect was also examined and found to have significance ($p=.004$) for the combined environmental variable as a predictor of firm

financial performance. Table 4.16 provides the test results of moderated regression analysis for the combined environmental variable.

Table 4.16 – Moderated Regression Results for the Combined Environmental Variable

	Significance	Beta	R ²	F-Statistic	Support
Employee	.117	.701			Not Supported
Customer			.086	4.774	
Customer w/interaction	.004	2.309	.159	6.364	Supported
Investor	.238	.356			Not Supported
Competitor			.080	4.415	
Competitor w/interaction	.079	.649	.107	4.052	Not Supported

The second research question addressed in this study was, “Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms?” The statistical model used was forward stepwise regression analysis to determine which stakeholder dimension was the best predictor of firm performance. The advantage of using forward stepwise regression was, through a sequence of F-tests to control the inclusion of variables, each step of the iterative process comes closer to determining the true value of the contribution of each predictor (i.e. stakeholder dimension).

The first attempt to answer this research question used aggregated measures in accordance with previous theoretical development (Greenley et al., 1997) for each of the stakeholder dimensions in the regression analysis. The analysis was not possible because all of the stakeholder dimensions qualified for removal at the $p=.10$ threshold; therefore,

a separate post hoc analysis was developed. The first question asked on the survey requested the respondents to rank order the importance of each of the four stakeholders to the company. In other words, the most important stakeholder to one's company would be ranked one; the second most important would be ranked two, and so on for all four stakeholders. Preliminary analysis revealed that customers ($\mu=1.32$) followed by employees ($\mu=1.91$), investors ($\mu=3.23$), and competitors ($\mu=3.53$) would be the order of importance based on mean ranking. A separate regression analysis was conducted for each stakeholder dimension ranking, where the ranking for each dimension was regressed on the aggregate financial performance measure. Results of the regression analyses revealed employee ranking and customer ranking were significant predictors. The coefficient table from the regression analysis for the SO dimension ranking with coefficients and significance levels are shown in Table 4.17.

Table 4.17 – Coefficient Table for SO Dimension Ranking

		Coefficients^a				
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	6.276	1.156		5.427	.000
	Rank Emp	-.458	.235	-.235	-1.948	.054
	Rank Cust	-.657	.279	-.277	-2.352	.021
	Rank Comp	.046	.204	.022	.223	.824

a. Dependent Variable: AggFinPerf12Mos

The order of importance based on standardized Beta coefficients was 1) customer, 2) employee, 3) competitor, and 4) investor orientation. This mirrored the preliminary analysis of importance based on mean ranking, with the exception of the reversal of positions between competitor and investor. In other words, the order of importance based on mean ranking from the preliminary analysis was 1) customer, 2) employee, 3) investor, and 4) competitor orientation, and the order of importance found in the regression analysis was 1) customer, 2) employee, 3) competitor, and 4) investor orientation.

Summary

This chapter described the sample used for this study in terms of the data collection process and descriptive statistics, tests of statistical assumptions related to the use of regression analysis, results from hypotheses tests, and information to answer the two research questions posed by this study. The survey collection process was explained along with response rates and possible causes that could influence non-response. Descriptive statistics were presented for demographic and control variables, and power analysis was re-computed. Collinearity diagnostics were generated to examine the potential for multicollinearity between predictors and a correlation table was provided with mean, standard deviation, and correlations for all variables.

Assumptions were tested for threats to statistical conclusion validity, normality, linearity, and equality of variance. Non-response bias was a threat to statistical conclusion validity. To test for non-response bias, the two waves of respondents were subject to independent t-tests and a Pearson chi-square test. No significant differences were detected between the two waves of respondents. Three more goodness-of-fit tests

were run to examine potential differences between very small businesses (i.e. < 20 employees) and the remainder of the sample, ownership percentage, and service versus manufacturing firms. The inclusion of a service versus manufacturing firm control variable was the only remedy prompted by the goodness-of-fit tests.

Normality and linearity were tested through the examination of histograms, scatter plots, and normal probability plots. The histograms presented an issue of concern that was remedied through observation of standardized residuals closely following the diagonal in both scatter plots and normal probability plots consistent with a normal distribution. Linearity appeared to be a reasonable assumption for the sample. The final assumption tested was Levene's test for equality of variance. The statistical test for heteroscedasticity indicated that equal variances could be assumed among the error terms.

Hypotheses for the direct effect of SO were evaluated using multiple regression analysis, the interaction effect of organizational context was examined through moderated regression analysis, and the research question concerning a pattern of SO with the strongest relationship to firm performance used forward stepwise regression and multiple regression analysis. No significant effect was found for SO dimensions as a predictor of small, firm financial performance.

Exploration of the variance explained by environmental dynamism indicated moderate support for customer, investor, and competitor orientation as more positively related to performance during periods of higher dynamism. No support was found for any dimensions with regard to environmental munificence, although a main effect was significant. In a post hoc analysis combining both environmental dynamism and munificence into a single moderator variable, support was found for only customer

orientation as positively related to performance during periods of high dynamism and munificence. Main effect was also significant in this post hoc analysis.

Using forward stepwise regression to examine the research question concerning a pattern of SO with the strongest relationship to performance, none of the SO dimensions met the threshold of $p < .10$. A post hoc multiple regression analysis was employed to examine the ranking of SO dimensions in multiple regression analysis and found employee and customer ranking to be significant. A summary table of all hypotheses and the last research question along with findings is shown in Table 4.18. Chapter V will provide a discussion of these results and draw conclusions regarding the research questions, and the impact of SO on the performance of small, young businesses.

Table 4.18 – Summary Table of Hypotheses and Research Question

Hypothesis 1 – Direct Effect of SO	Findings
H1a: Employee orientation would have a significant and positive effect on performance	Not Supported
H1b: Customer orientation would have a significant and positive effect on performance	Not Supported
H1c: Investor orientation would have a significant and negative effect on performance	Not Supported
H1d: Competitor orientation would have a significant and positive effect on performance	Not Supported

Hypothesis 2 – Environmental Dynamism	Findings
H2a: When environmental dynamism was higher, there would be a more positive relationship of employee orientation with performance	Not Supported
H2b: When environmental dynamism was higher, there would be a more positive relationship of customer orientation with performance	Moderate Support (p=0.052)
H2c: When environmental dynamism was higher, there would be a more negative relationship of investor orientation with performance	Moderate Support (p=0.087)
H2d: When environmental dynamism was higher, there would be a more positive relationship of competitor orientation with performance	Moderate Support (p=0.060)

Hypothesis 3 – Environmental Munificence	Findings
H3a: When environmental munificence was higher, there would be a more positive relationship of employee orientation with performance	Not Supported
H3b: When environmental munificence was higher, there would be a more positive relationship of customer orientation with performance	Not Supported
H3c: When environmental munificence was higher, there would be a more positive relationship of investor orientation with performance, and when environmental munificence was lower, there would be a more negative relationship of investor orientation with performance	Not Supported
H3d: When environmental munificence was higher, there would be a more positive relationship of competitor orientation with performance	Not Supported

Post Hoc Hypotheses and Research Question	Findings
Post hoc: Interaction effect of the combined environmental dynamism and munificence variable on employee orientation	Not Supported
Post hoc: Interaction effect of the combined environmental dynamism and munificence variable on customer orientation	Supported (p=0.004)
Post hoc: Interaction effect of the combined environmental dynamism and munificence variable on investor orientation	Not Supported
Post hoc: Interaction effect of the combined environmental dynamism and munificence variable on competitor orientation	Not Supported
Research Question: Is there a pattern of stakeholder orientation that has the strongest relationship with performance?	All dimensions non-significant in forward stepwise regression
Post hoc: Regressed all SO rankings with performance	Employee and customer rankings were significant. Beta coefficients could infer the following order: 1) customer, 2) employee, 3) competitor, and 4) investor orientation

CHAPTER V

CONCLUSION

The first published works exploring stakeholder orientation appeared in the literature over ten years (Greenley et al., 1996). Yet, despite consistent theoretical development of stakeholders (Donaldson et al., 1995; Freeman, 1984; Mitchell et al., 1997) and a handful of empirical stakeholder orientation studies (Berman et al., 1999; Greenley et al., 1996, 1997, 1998), the first psychometrically developed scale for the measurement of SO was only recently published (Yau et al., 2007). The SO of a company is important because the strategic attention serves as a reference for management to interpret the role of various stakeholders and the organization's relationship to them. SO may also have a different effect on small businesses than might be observed in large firms (Thompson et al., 1991). Small businesses by their very nature may rely more heavily on stakeholders to survive and later to prosper. Also, the relationship between small business owners and stakeholders may be based more on personal relationships.

Therefore, the purposes of this dissertation were to explore how small business manager's stakeholder orientation affected performance, and to look at this relationship in certain organizational contexts, specifically with an environmental lens. There were two research questions: 1) how does stakeholder orientation relate to performance of

small, young firms, and 2) is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms?

This chapter summarizes the empirical findings of this study, compares these results to previous SO research, and provides possible explanations for non-hypothesized results. Last, contributions and implications of the findings, limitations of the research, and possible directions for future research are presented.

Empirical Findings

Prior to examination of the two research questions, it was prudent to study the reliability of the SO scale since it had not been used outside of the original developmental study (Yau et al., 2007). Yau et al. (2007) originally began with a much larger scale developed from multiple sources (Kohli et al., 1990; Narver et al., 1990) and followed suggestions by Churchill (1979) and Phillips and Bagozzi (1986) to reduce the scale to its current size. Since the original scales were written in English for western studies, Yau et al. (2007) had the items back-translated into Chinese for their study of large corporations in China. The Chinese version of the survey items were double translated as suggested by Brislin (1980) into English to ensure the meaning of all items were consistent for the English publication of the scale.

The findings of this study support and extend the research of Yau et al. (2007). The factor and reliability analysis of the scale developed by Yau et al. (2007) were fully supported. Both studies found stakeholder orientation as a multi-dimensional construct consisting of four components or orientations. Consistent with previous literature (Greenley et al., 1996; Jaworski et al., 1993; Narver et al., 1990), the four dimensions are

referred to as employee, customer, shareholder (or investor), and competitor orientation. Three of the four dimensions were found to have substantially higher reliability in the current study and employee orientation had a Chronbach's Alpha only 0.012 weaker. All reliabilities were over 0.70, the lower acceptable limit for Chronbach's Alpha (Hair et al., 1998), and most were over 0.80. Chronbach's Alpha for competitor orientation in the original study was only 0.668, but could be deemed acceptable since it was an exploratory study. The current study found competitor orientation to be much stronger at Chronbach's Alpha equal to 0.792. The item analysis for this new scale was critical since it had only been analyzed as part of the scale development process, and the scale development was done in Chinese with a double translation to English.

Since the Yau et al. (2007) scale was an exploratory study, some lenience could be deemed acceptable in the interpretation of reliability and significance. Exploratory studies are useful in studying possible relationships by allowing method and data to define the nature of relationships (Hair et al., 1998). The nature of the relationship between stakeholder dimensions was based on a priori theorizing (Freeman, 1984; Greenley et al., 1996; Kohli et al., 1990; Narver et al., 1990) about the underlying multi-dimensionality of stakeholder orientation. Without a priori theorizing, Rosenberg (1968: 232-239) argues "one must rely on post-factum interpretations, which have the disadvantages of being excessively flexible, non-nullifiable, and dependent on external confirmation." Allowing for leniency in the strict interpretation of reliability and significance in an exploratory study allows for subsequent studies to be conducted in the spirit of confirmation.

Although reliability was generally found to be much stronger in the current study, significance levels may have been negatively impacted by the low response rate. A sample with a small number of respondents may not have sufficient power to reject the null hypothesis at a given effect size and a given alpha (Pedhazur et al., 1991). Conversely, if a theorized position can be supported by a sample with a small number of respondents, thereby rejecting the null hypothesis, the smaller number of respondents actually speaks for a more dramatic effect (Royall, 1986). Support for theorized positions is then critical to the evaluation of significance in the first research question.

With confidence in the dimensionality and reliability of the scale, the first research question was examined. To answer the question, “How does stakeholder orientation relate to performance of small, young firms?” a series of hypotheses were tested. The first set of hypotheses posited that employee, customer, and competitor orientation would have a significant and positive effect on performance in small, young firms and investor orientation would have a significant and negative effect. The orientation toward the interests of employees has been found in a number of studies to contribute to the success of the organization (Appleyard et al., 2001; Bou et al., 2005; Michie et al., 2001). Likewise, customer oriented strategies have found higher performance in firms operating in turbulent environments (Ward et al., 2008), economically developed markets with demanding customers (Zhou et al., 2007), and in industries with family businesses (Tokarczyk et al., 2007). Greenley and Foxall (1997, 1998) also associated attention toward competitors with a global measure of SO to find an influence on performance. Finally, internal turmoil and a negative reaction to investor orientation was suggested by studies that examined firm announcements of more rigorous

governance procedures, major new customers, new products or services, and new acquisitions and organizational changes, and found increased volatility from active investor reactions to the firm (Cannella, 1995; Rajgopal et al., 2002). Despite previous study findings and support for these hypotheses, this study was unable to support a relationship between employee, customer, investor, or competitor orientation and the financial performance of small, young firms. A possible explanation for the lack of support may be found in the low response rate. The small number of respondents may not have had enough power to reject the null hypothesis.

The second and third set of hypotheses designed to answer the first research question concerned the moderating effect of organizational context. Specifically, the second set of hypotheses posited that the relationship of SO with the performance of small, young firms would be moderated by environmental dynamism such that when environmental dynamism was higher, there would be a more positive relationship of employee, customer, and competitor orientation with performance. Additionally, a more negative relationship between investor orientation and performance would occur when environmental dynamism was high. These hypotheses were developed based on studies of organizations that had the flexibility to adapt business practices to continue strong relationships with stakeholders that supported their firm's performance regardless of the dynamism within the environment (Davis et al., 1991; Goll et al., 2004; Li et al., 1998). This study found moderate support for the moderating effect of environmental dynamism on the relationship between customer, investor, and competitor orientation with small firm financial performance. Moderate support for this study is defined as $p=0.051$ to $p=0.100$. No support was found for the moderating effect of environmental dynamism on

employee orientation. The findings indicate when environmental dynamism is higher; there is a more positive relationship of customer and competitor orientation with performance. However, higher environmental dynamism also results in a more negative relationship of investor orientation with performance.

The third and final set of hypotheses to help answer the first research question related to the moderating effect of environmental munificence. The third set of hypotheses posited that the relationship of SO with the performance of small, young firms would be moderated by environmental munificence such that when environmental munificence was higher there would be a more positive relationship of all four SO dimensions with performance. Additionally, when environmental munificence was lower there would be a more negative relationship of investor orientation with performance. The hypotheses were based on theory concerning the ability of a small firm to capitalize on growing markets and generate capacity, or demand, from its environment (Cyert et al., 1963). Munificence is most often defined in terms of demand (Dess et al., 1984a) and Romanelli (1989) found young firms more likely to survive when demand in an industry was rising. Therefore, in each of the stakeholder dimensions the relationship was projected to be more positive when environmental munificence was higher. Investor orientation was theorized to be more negative when environmental munificence was lower based on Cannella's findings (1995) of managers being less likely to undertake risky strategies in uncertain environments. Again, despite prior theory and empirical results, this study was unable to support a moderating influence of environmental munificence on the relationship of any stakeholder dimension with firm financial performance. However, environmental munificence as a main effect was found to be a

significant predictor of performance. The lack of moderating support could also be caused by the low response rate. The small number of respondents may not have had enough power to reject the null hypothesis.

As a post hoc analysis, both environmental dynamism and environmental munificence variables were combined into a single moderator variable. This study found support for the moderating influence on the relationship between customer orientation and firm performance when the single environmental moderator was high; however, no support was found for employee, investor, or competitor orientations. The single environmental moderator variable was also found to have a main effect as a significant predictor of firm performance. Again, the lack of support for the single environmental moderator may have also been caused by the low response rate.

The second research question was, “Is there a pattern of stakeholder orientation that has the strongest relationship with the performance of small, young firms?” Since previous empirical research addressed the firm performance impact of stakeholder orientation and stakeholder relationships in an aggregate form (Berman et al., 1999; Greenley et al., 1997, 1998), this question was an exploratory attempt to untangle the conflicting results of previous research of the multiple dimensions of SO. Forward stepwise regression was used to allow the inclusion of individual dimensions through an iterative process that came closer to determining the true value of the contribution of each stakeholder dimension. Unfortunately, none of the dimensions met the threshold of $p=.10$ for inclusion. This absence of effect may be another result of the low response rate or it may have been an indication that there is no pattern of SO with the strongest relationship with performance.

To investigate further, forward stepwise regression was replaced with multiple regression analysis used to explore the pattern of stakeholder dimensions with the greatest impact on performance. Preliminary analysis from a rank-order question asked of respondents on the survey revealed that they would rank customers as most important followed by employees, investors, and competitors based on mean ranking. A regression analysis of the rankings found support for customer and employee orientation dimensions. The order of importance of stakeholder dimensions could be inferred from the standardized Beta coefficients found in the regression analysis. The pattern of importance of stakeholder orientation that emerged was customer, employee, competitor, and investor orientation. This ordering differed from the order of importance based on mean ranking by elevating competitor orientation to the third place and moving investor orientation to the fourth place compared to the mean ranking.

A possible explanation for the difference in stakeholder dimension strength may lie in how the information was obtained from small business owners. The rank order question was an initial snapshot provided by the respondent when answering the first question on the survey. The aggregated input for the four stakeholder dimensions was based on answers to 18 additional questions. Although the first two orientations remained the same (i.e. customer and employee), small business owners that displaced investors with competitors as the third most important stakeholder relationship to performance by virtue of the analysis of responses from 18 questions could be interpreted as a closer representation of their actions, versus the initial rank ordering where the owners said that investors were more important than competitors. In other words, the regression analysis results with a pattern of customers, employees, competitors, and

investors, in that order, may be a closer representation of the SO dimensions with the strongest relationship with the performance of small, young firms.

Contributions and Implications of the Findings

There were four potential contributions of this study discussed in Chapter I. This section reviews and expands upon the four potential contributions and discusses the implications for managers and researchers.

Potential Contributions

The first contribution of this study was to discover if stakeholder orientation had an effect on performance for small, young firms. This extends in two ways the existing research of empirical SO studies (Berman et al., 1999; Greenley et al., 1997, 1998) that examined a direct effect on firm performance. First, the previous empirical studies used an aggregated measure of SO, thereby ignoring the dimensionality of the construct. This study tested the direct effect of each stakeholder dimension on firm performance.

Second, all previous empirical studies that were found (Berman et al., 1999; Greenley et al., 1996, 1997, 1998) used data from large, publicly-held corporations, and this study was based on small, young firms that were private organizations. Studies of small businesses in the strategic management literature are less common and made more difficult by measurement issues (Chrisman et al., 2002; Jackson, 2001; Spence et al., 2003; Straub et al., 1995). The measurement issues were compounded in this study by a small number of respondents and may have resulted in less power than needed to discover significant effects. Accepting that the small number of respondents still

qualified as having sufficient power based on a priori design and post hoc analysis, none of the four stakeholder dimensions demonstrated a significant effect on firm financial performance.

The second and third contributions of this study examined whether the stakeholder orientation – performance relationship was contingent on organizational context, specifically environmental dynamism and environmental munificence. This is the first known study to examine the relative importance of environmental dynamism and munificence as moderators of the SO – performance relationship. Greenley et al. (1996, 1997, 1998) did not address environmental dynamism or munificence in any of their articles, and Berman et al. (1999) used both dynamism and munificence as control variables for the study of the effects of business strategy with stakeholder orientation. The results from this study indicate moderate support for the moderating effect of environmental dynamism on the relationship of customer, investor, and competitor orientation with firm financial performance. Dynamism is the degree of difficulty in predicting external factors of the firm (Dess et al., 1984a). Even though the results of this study suggest that none of the stakeholder dimensions were found to have a direct effect on performance, during times of higher instability within the environment there is a more positive relationship between customer, investor, and competitor orientation with firm performance.

Although significance was found for the moderating effect of environmental dynamism, no support was determined for the moderating effect of environmental munificence on any of the stakeholder dimensions with firm performance. Munificence, defined as the abundance of resources available to support growth in the organization's

environment (Dess et al., 1984a), would arguably have an effect on the SO – performance relationship; however, the small number of respondents may not have provided enough power to find significance in this test of moderation. This argument may find support in the post hoc analysis where environmental dynamism and munificence were combined into one variable. The single interaction fully supported the moderation effect of customer orientation with performance. This suggests that during periods of higher instability and availability of resources, there is a more positive relationship between customer orientation and firm performance.

The fourth contribution of this study was to learn whether there was a pattern of stakeholder orientation that had the strongest relationship with the performance of small, young firms. Given that previous empirical studies (Berman et al., 1999; Greenley et al., 1997, 1998) consolidated the SO dimensions to a single aggregate measure, this is the first known study to examine the variation in effect of the multiple dimensions of stakeholder orientation. The results indicate there is a pattern of stakeholder orientation with the strongest relationship to performance. The order of importance found through regression analysis was 1) customer, 2) employee, 3) competitor, and 4) investor orientation. The order of importance differed from the response to a rank order question on the survey and the implications of this difference will be discussed later.

Another contribution beyond those discussed in Chapter I came from the replication of the survey items developed by Yau et al. (2007). The items developed by Yau et al. (2007) represent the first known psychometrically developed scale for SO. Being an exploratory study, the SO scale would benefit from further testing in various environments. In their discussion of limitations, Yau et al. (2007) stated that their study

represented a cross-section of primarily large businesses in urban Chinese areas. Yau et al. (2007) also offered as directions for future research the assessment of their SO scale in a developed economy, which was the setting for this dissertation. This study found support for the SO scale as a multi-dimensional construct consisting of four dimensions in a study of small businesses across multiple industries in Oklahoma, replicating the same dimensional make-up found by Yau et al. (2007). Also, support was found for the reliability of the dimensions at an even higher level than that reported by Yau et al. (2007) in their study of primarily large businesses in urban Chinese areas. This different template for the SO scale adds to the generalizability of the scale.

Implications for Managers

From a managers or small business owner's perspective, the lack of significance found for any of the stakeholder dimensions infers that affording strategic attention to any one stakeholder has little to no effect on the financial performance of the firm. However, during times of environmental dynamism or instability, more positive strategic attention to customers, investors, and competitors will have a positive effect on the firm's financial performance. Additionally, when small business owners find themselves with limited resources to distribute among multiple stakeholders, strategic attention given to customers, employees, competitors, and investors, in that order, have the strongest relationship to the business's financial performance.

Implications for Research

There are two important implications for research that can be concluded from this study. First, the Yau et al. (2007) scale appears to be a sound measure of stakeholder orientation and should be used to test SO at the dimensional level. The exploratory work of Yau et al. (2007), done primarily on large firms in major cities in China, was confirmed in this study through factor analysis and reliability testing on a sample of small businesses in a developed U.S. economy. Testing of SO in the aggregate form (Greenley et al., 1997, 1998) at best provides an incomplete picture of SO and at worst may provide spurious results. The Yau et al. (2007) scale should be used in future studies of stakeholder orientation.

The second implication for research is the importance of including contextual factors as interactions. Previous SO studies have used a variety of contextual moderators. Greenley et al. (1996, 1997, 1998) used market growth, competitive hostility, market turbulence, ease of market entry, and technological change with mixed support, but did not address environmental dynamism or munificence. Berman et al. (1999) used both dynamism and munificence as control variables for the study of the effects of business strategy with stakeholder orientation. However, Dess and Beard (1984a) recommend using a scale of environmental dynamism and munificence when studying the organizational context of a firm. Additionally, the contextual factors should be examined as moderators of each individual dimension of SO.

Limitations

The results and analysis of this research have several limitations. The first limitation is the number of respondents is too small to test the hypotheses with much power. Initial power analysis revealed 97 responses were needed to provide adequate statistical power, or the probability of correctly rejecting the null hypothesis (Cohen, 1992). Due to complications arising from a nearly 20% error rate in the database and mailing of the survey during the sharpest economic decline in decades, the total response from two mailings to a database of 2268 companies was only 70 useable responses. An unplanned third mailing and phone calls to 277 businesses was needed to reach 105 completed surveys. Although power analysis was re-computed and found to be adequate, and non-response bias between the separate waves of mailings was found not to be a significant factor, the overall 5.75% response rate was far below the expectation for such a large database. Further insight would be likely from a substantial increase in the number of respondents.

A second limitation of the study is there may be lack of generalizability of the study due to the mailed survey method. Although the respondents are representative of the population of interest, there is missing information that may make the study less generalizable to all small businesses. Mailed responses were anonymous and made it impossible to follow-up to retrieve missing information. For example, 52 of the initial responses were truly anonymous and did not indicate the type of business in which they were involved. This equates to 50% of the responses in which one of the control variables (i.e. industry) was not available. Additionally, 24 (i.e. 44%) of the respondents that did identify the type of business came from one of four Standard Industrial

Classification (SIC) Codes. Thus only 6% of the respondents identified businesses that were diversified over 20 other SIC codes. It is possible that stakeholder orientation may be different for small businesses that are more representative of SIC codes.

A third limitation of the study is there is a lack of larger organizations as measured by number of employees from the respondents. Small organizations were defined as businesses with 5 – 500 employees and that was the target for the database that was assembled. The average number of employees in the responding businesses was 39.63 and there were only 12 (11.4%) with 100 to 400 employees. No respondents had more than 400 employees. Greater breadth in the size of the small businesses surveyed could offer findings with superior insight.

A fourth limitation of the study is related to some of the measures used. First, a better measure of environmental munificence may be needed. The scale was developed by Fuentes-Fuentes et al. (2004) with five items. Through the scale development process they eliminated three of the items and, in their confirmatory factor analysis; they reported an alpha of 0.89 for the two remaining items. While the reliability of the environmental munificence items is sufficiently high in this study, they only contain two items and none of the munificence hypotheses were supported. A more comprehensive measure of environmental munificence may contribute greater visibility on the relationship of stakeholder orientation with firm performance. Second, objective measures of performance were not available because the responding businesses were privately held. An attempt to quantify the size of the business through a “total asset value” question went unanswered on 12 of the responses (11%).

The fifth and final limitation is a general criticism of most all survey research, common method variance (CMV). CMV occurs because the independent and dependent variables are measured entirely with self-reported data, which was the case with this study. In an attempt to minimize the possibility of CMV, firms with 250 – 500 employees were mailed two copies of the survey and the owner or principal was asked to give a second copy of the survey to another executive in the company familiar with the organization's stakeholders. Due to the low response rate, only one business complied with this request and further analysis was not possible. CMV inflates the zero-order correlations and increases the shared variance among the independent variables. Because CMV is a main effect (i.e. it only inflates zero-order correlations in the independent variable), it makes it more difficult to find unique, significant beta weights, but does not inflate the likelihood of finding moderator variables. Thus, common method variance may have negatively impacted the findings of non-support for all main effects of stakeholder orientation dimensions with firm financial performance.

Future Research

Stakeholder orientation is a relatively fertile area for research since few empirical studies have been published. Several suggestions for future research will be presented.

First, the SO scale by Yau et al. (2007) has been shown to be generalizable to this study of small businesses in the U.S. More studies of this nature are needed to add to the generalizability of the scale. Beneficial research could be conducted on organizations according to size (i.e. small, mid-cap, and large firms), ownership (i.e. publicly-held and private organizations), as well as location (i.e. developed and developing economies).

Second, future research could examine other stakeholders beyond the four dimensions found in this study. Other studies could examine the impact of various stakeholders, such as suppliers, community, government, unions, and the environment.

Third, the direction of influence should be studied between SO and performance. This study examined the direct effect of SO dimensions with firm performance. Future studies could look at the effect of firm performance on stakeholders. There may be a recursive or a curvilinear relationship between the constructs.

Fourth, the antecedents of stakeholder orientation should be examined both theoretically and empirically. In the process of reviewing literature for this study, no research was found on the antecedents of stakeholder orientation. Research in this area could assist business owners and managers in forming an orientation directed at specific stakeholders.

Fifth, different types of orientation may affect diverse aspects of firm performance. Future research could examine specific links between various stakeholder dimensions and corresponding measures of financial performance. For example, the hypotheses from this study examined the relationship between each of the SO dimensions and an aggregate measure of firm financial performance. Future studies could examine the relationship of customer orientation with sales or price-to-sales, or investor orientation with return on investment or market share, and so forth. Studies of this nature would provide a more fine grained analysis of the effect of SO with financial performance.

Sixth, it is prudent to assume that stakeholder orientation would change over time. Given this assumption, future research should be directed toward collecting longitudinal

data. For example, this study was conducted during one of the largest economic downturns in decades. A similar study during a time of economic prosperity could likely provide a different, and hence, a broader insight into stakeholder orientation.

Conclusion

This study has extended the generalizability of the stakeholder orientation scale and investigated the impact of stakeholder orientation on the performance of small, young businesses. The results suggest the scale is valid and reliable, but no support was found for the direct effect of any stakeholder dimension with firm financial performance. However, the impact of customer, investor, and competitor orientation with firm performance is significantly impacted when environmental dynamism is higher. In addition, a pattern of stakeholder orientation emerged indicating an order of strongest support provided to customers followed by employees, competitors, and investors.

This study has extended knowledge of stakeholder orientation, supplied additional support for the SO scale, added to an understanding of contextual factors as they interact with stakeholder orientation, and contributed to the small business literature. A better understanding of stakeholder orientation and its impact on firm financial performance should provide small, young businesses with an ability to develop orientations toward stakeholders that can become a competitive advantage.

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APPENDICES

Appendix A – Survey Instrument



TULSA METRO CHAMBER



WILLIAM S.
Spears School
OF BUSINESS

September 15, 2008

Owner's Name
Street Address
City, OK Zip Code

Subject: Survey of Oklahoma Small Business Practices

Dear (Owner's Name),

Please help the Small Business Center of the Tulsa Metro Chamber of Commerce and researchers at Oklahoma State University help you. We are conducting an in-depth study of small business practices in northeast Oklahoma. We hope to help business owners and managers like you better understand the complex relationships between performance and your relationship with stakeholders, such as employees, customers, investors, and competitors. By completing the enclosed survey you will be providing valuable input to this research project.

If you complete the enclosed survey, we will have the information needed to complete the study. (Please note, for statistical analysis reasons, it is very important that you answer all questions). When your completed survey is received, the researchers will donate \$2 to either Habitat for Humanity or the Tulsa Area Food Bank. In addition, if you so designate, they will send you an Executive Business Practices Report highlighting the findings of this research.

All responses to the survey will be held in the strictest confidence by the research team. ***Any information you provide will remain confidential. It will not be divulged to anyone, at any time, for any reason.*** Please contact Mr. Duesing, from the Oklahoma State University research team, if you have any questions or comments about this survey or this study. Your input is critical, and we appreciate your assistance.

Sincerely,

Kinnee Tilly, Director
kinneetilly@tulsachamber.com
Small Business Programs
Tulsa Chamber of Commerce

Margaret A. White, Ph.D.
margaret.white@okstate.edu
Project Director
Oklahoma State University

Robert J. Duesing
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Research Assistant
Oklahoma State University



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General Information and Consent

The purpose of this project is to help managers and researchers better understand how a company's stakeholder orientation impacts its performance. The findings of this study will help executives like you to improve the competitiveness of their firms. Although participation in this study is voluntary, your input is *vital* to the successful completion of this project. Please complete this survey and return it in the postage-paid envelope that has been provided. Participating companies will receive an Executive Business Practices Report in a few weeks highlighting the findings of this study.

Please be sure to answer each question, because unanswered questions cause severe problems with data analysis. All responses will be held in strictest confidence. ***Any information you provide will remain confidential forever. It will not be divulged to anyone, at any time, for any reason.*** Any written results will discuss group findings and will not include information that will identify you or your company. Research records will be stored securely and only researchers and individuals responsible for research oversight will have access to the records. It is possible that the consent process and data collection will be observed by research oversight staff responsible for safeguarding the rights and well being of people who participate in research. There are no known risks associated with this study which are greater than those ordinarily encountered in daily life.

Thank you for participating in this study. If you have any questions or comments on this study, please contact me at (405) 269-6636. If you have questions about your rights as a research volunteer, you may contact Dr. Sue C. Jacobs, IRB Chair, 219 Cordell North, Stillwater, OK 74078, phone 405-744-1676, or irb@okstate.edu. Your input is greatly appreciated.

Sincerely,

Robert J. Duesing
bob.duesing@okstate.edu
Doctoral Candidate



WILLIAM S.
Spears School
OF BUSINESS

General Information and Consent (version 2 for large firms)

The purpose of this project is to help managers and researchers better understand how a company's stakeholder orientation impacts its performance. The findings of this study will help executives like you to improve the competitiveness of their firms. Although participation in this study is voluntary, your input is *vital* to the successful completion of this project. Please complete this survey and return it in the postage-paid envelope that has been provided. Also, please give the second copy of the survey to another executive in your company familiar with your firm's stakeholders and ask them to return it in the other postage-paid envelope. Participating companies will receive an Executive Business Practices Report in a few weeks highlighting the findings of this study.

Please be sure to answer each question, because unanswered questions cause severe problems with data analysis. All responses will be held in strictest confidence. ***Any information you provide will remain confidential forever. It will not be divulged to anyone, at any time, for any reason.*** Any written results will discuss group findings and will not include information that will identify you or your company. Research records will be stored securely and only researchers and individuals responsible for research oversight will have access to the records. It is possible that the consent process and data collection will be observed by research oversight staff responsible for safeguarding the rights and well being of people who participate in research. There are no known risks associated with this study which are greater than those ordinarily encountered in daily life.

Thank you for participating in this study. If you have any questions or comments on this study, please contact me at (405) 269-6636. If you have questions about your rights as a research volunteer, you may contact Dr. Shelia Kennison, IRB Chair, 219 Cordell North, Stillwater, OK 74078, phone 405-744-1676, or irb@okstate.edu. Your input is greatly appreciated.

Sincerely,

Robert J. Duesing
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Research Assistant



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Informed Consent Signatures

Please sign and date the form below. If you would like to have a copy of the Executive Business Practices Report with the findings of this study mailed to you, please include a mailing address. This form will be detached from your survey immediately upon receipt and stored in a separate, locked office. All data will be aggregated and will not be attributable to any one person or company. At the completion of this study and once the Executive Business Practices Reports have been mailed, the informed consent signature page and company addresses will be destroyed.

I have read and fully understand the general information and consent form appearing on the previous page and may retain it for my own information. I sign this form freely and voluntarily.

Signature of Participant

Date

Mailing address for a copy of a copy of the Executive Business Practices Report:

Section 1: Stakeholder Ranking

Please rank order the importance of each stakeholder below to your company:

Employees _____

Customers _____

Investors _____

Competitors _____

Section 2: Stakeholder Orientation

1. Circle the answers below that best represents your company's attention to customers.

Strongly disagree	2	3	Some what agree	5	6	Strongly agree
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a. Competitive strategies are based on understanding customer needs

1 2 3 4 5 6 7

b. Customer satisfaction is systematically and frequently assessed

1 2 3 4 5 6 7

c. Our commitment of serving customer needs is closely monitored

1 2 3 4 5 6 7

d. Close attention is given to after sales service

1 2 3 4 5 6 7

e. Our objectives and strategies are driven by the creation of customer satisfaction

1 2 3 4 5 6 7

2. Circle the answers below that best represent your company's attention to competitors.

	Strongly disagree	2	3	Some what agree	5	6	Strongly agree
a. Sales people share information about competitors	1	2	3	4	5	6	7
b. Top management regularly discusses competitors' strengths and weaknesses	1	2	3	4	5	6	7
c. We respond rapidly to competitors' actions	1	2	3	4	5	6	7
d. Customers are targeted when we have an opportunity for competitive advantage	1	2	3	4	5	6	7

3. Circle the answers below that best represent your company's attention to investors.

	Strongly disagree	2	3	Some what agree	5	6	Strongly agree
a. Our objectives are driven by creating investor wealth	1	2	3	4	5	6	7
b. Senior managers have regular meetings with investors	1	2	3	4	5	6	7
c. We regularly compare our firm value to that of our competitors	1	2	3	4	5	6	7
d. We regularly carry out public relations aimed at investors	1	2	3	4	5	6	7
e. Designated managers have	1	2	3	4	5	6	7

responsibility for
aiming to satisfy
investors' interests

4. Circle the answers below that best represent your company's attention to employees.

	Strongly disagree	2	3	Some what agree	5	6	Strongly agree
a. We have regular staff appraisals in which we discuss employees' needs	1	2	3	4	5	6	7
b. We have regular staff meetings with employees	1	2	3	4	5	6	7
c. As a manager, I try to find out the true feelings of my staff about their jobs	1	2	3	4	5	6	7
d. We survey staff at least once each year to assess their attitudes to their work	1	2	3	4	5	6	7

Section 3: Business Environment

Circle the answers below that best represent the business environment of your company.

	Strongly disagree	2	3	Some what agree	5	6	Strongly agree
a. There is little need for our firm to change its marketing practices to keep up with competitors	1	2	3	4	5	6	7
b. The rate at which products/services are becoming obsolete in the industry is very slow	1	2	3	4	5	6	7

c. Actions by competitors are very easy to predict	1	2	3	4	5	6	7
d. Demand and consumer tastes are very easy to predict	1	2	3	4	5	6	7
e. The production/service technology in this industry rarely changes	1	2	3	4	5	6	7
f. Technological advances within the industry are easy to predict	1	2	3	4	5	6	7
g. Consumer demand for our products/services is very stable	1	2	3	4	5	6	7
h. Demand for the products/services of our industry has been growing	1	2	3	4	5	6	7
i. The investment or marketing opportunities for firms in our industry have been very favorable	1	2	3	4	5	6	7

Section 4: Your Firm's Performance Over the Last 12 Months

How do you feel that your firm's performance has compared to similar firms in your industry over the last twelve months? Circle the answer in each line that best represents your opinion.

1	2	3	4	5	6	7
At the bottom			In the middle			At the top

Return on investments	1	2	3	4	5	6	7
Sales growth	1	2	3	4	5	6	7
Market share	1	2	3	4	5	6	7
Profit to sales ratio	1	2	3	4	5	6	7
Overall financial performance	1	2	3	4	5	6	7

Section 5: Other Important Information

How many people work for your company today? _____ Three years ago? _____

What is the approximate total asset value of your company? _____

Is your company publicly or privately held? _____ public _____ private

How many years has your firm been in business? _____

What is the major focus of your company? _____ service _____ manufacturing

Please describe your business in your own words:

What is the title of your position within the company? _____

Were you one of the company's founders? _____ yes _____ no

Approximately what percentage of the business do you own? _____ %

Do you have a business partner? _____ yes _____ no

Does your company have outside investments from: _____ banks or financial institutions;
_____ venture capitalists; _____ family/friend investor; other (please
specify) _____

How old are you? _____

What is your gender? _____ male _____ female

What is your ethnicity? _____ white/non-Hispanic; _____ American Indian/Alaskan native;
_____ black/non-Hispanic; _____ Asian/Pacific Islander; _____ Hispanic

How many years have you been with this company? _____

How many years of supervisory experience do you have in your firm's primary industry?
_____ years

Have you owned a business prior to your experience with the current one?

_____ Yes _____ No

What is the highest education level you have completed? (Please circle one)

High School	Associate's Degree	Bachelor's Degree	Master's Degree	Doctoral Degree
1	2	3	4	5

*How many years have you worked in any of the following functional areas outside of
your present company? (Please write number of years in as many as appropriate):*

_____ Accounting/Finance

_____ Legal

_____ Marketing/Sales

_____ R&D

_____ Engineering

_____ Public Relations

_____ Manufacturing

_____ Other (_____)

_____ General Management

_____ Please check here if you would like to receive a copy of this study's results.

_____ Please check here if you would be willing to participate in a follow-up survey in approximately 6 months.

Section 6: Additional Comments

Please write any additional comments you may have in the space below. When completed, please return the survey and the informed consent signature sheet in the postage paid envelope.

Appendix B – Original Survey Scales

Stakeholder Orientation

The SO scale was developed by Yau et al. (2007b) consisting of four dimensions and is shown below:

Customer Orientation: Cronbach's Alpha = 0.762

1. Competitive strategies are based on understanding customer needs.
2. Customer satisfaction is systematically and frequently assessed.
3. Our commitment of serving customer needs is closely monitored.
4. Close attention is given to after sales service
5. Our objectives and strategies are driven by the creation of customer satisfaction.

Yau et al. (2007b) adopted the scale for customer and competitor orientation from the marketing orientation scale developed by Narver and Slater (1990b). The following comparison can be made between the two scales for customer orientation:

Narver and Slater (1990b)	Comparable to Yau et al. (2007b)
Customer commitment	#3
Create customer value	None
Understand customer needs	#1 maybe
Customer satisfaction objectives	#5
Measure customer satisfaction	#2
After-sales service	#4

Using this scale, Narver and Slater (1990b) reported an alpha of 0.867. Han, Kim & Srivastava (1998) also used the same Narver and Slater (1990b) scale and reported an alpha of 0.83.

Competitor Orientation: Cronbach's Alpha = 0.668

6. Sales people share information about competitors.
7. Top management regularly discusses competitors' strengths and weaknesses.
8. We achieve repaid response to competitive actions.
9. Customers are targeted when we have an opportunity for competitive advantage.

Again, using the Narver and Slater (1990b) scale the following comparison can be made for competitor orientation:

Narver and Slater (1990b)	Comparable to Yau et al. (2007b)
Salespeople share competitor information	#6
Respond rapidly to competitors' actions	#8
Top managers discuss competitors' strategies	#7
Target opportunities for competitive advantage	#9

Using this scale, Narver and Slater (1990b) reported an alpha of 0.727, and Han, Kim & Srivastava (1998) using the same scale reported an alpha of 0.79. It appears that the wording of item #8 in the Yau et al. (2007b) version may have been confused in the translation.

Shareholder Orientation: Cronbach's Alpha = 0.753

10. Our objectives are driven by creating shareholder wealth.
11. Senior managers have regular meetings with shareholders.
12. We regularly compare our share value to that of our competitors.
13. We regularly carry out public relations aimed at shareholders.
14. Designated managers have responsibility for aiming to satisfy shareholders' interests.

Employee Orientation: Cronbach's Alpha = 0.763

15. We have regular staff appraisals in which we discuss employees' needs.
16. We have regular staff meetings with employees.
17. As a manager, I try to find out the true feelings of my staff about their jobs.
18. We survey staff at least once each year to assess their attitudes to their work.

Environmental Dynamism

The scale for environmental dynamism was developed by Miller and Droge (1986) with five items and is shown below. The reported Cronbach's Alpha = 0.74.

Our firm must rarely change its marketing practices to keep up with the market and competitors.	1 2 3 4 5 6 7	Our firm must change its marketing practices extremely frequently (e.g. semi-annually).
The rate at which products/services are getting obsolete in the industry is very slow (e.g. basic metal like copper).	1 2 3 4 5 6 7	The rate of obsolescence is very high (as in some fashion goods and semi-conductors).
Actions of competitors are quite easy to predict (as in some primary industries).	1 2 3 4 5 6 7	Actions of competitors are unpredictable.
Demand and consumer tastes are fairly easy to forecast (e.g. for milk companies).	1 2 3 4 5 6 7	Demand and tastes are almost unpredictable (e.g. high fashion goods).
The production/service technology is not subject to very much change and is well established (e.g. in steel production).	1 2 3 4 5 6 7	The modes of production/service change often and in a major way (e.g. advance electronic components).

Environmental Munificence

The scale for environmental munificence was developed by Fuentes-Fuentes et al. (2004) with five items and is shown below. Three items (1-3) refer to the environment and two items (4-5) reflect the influence of competition, which were reverse scored. Through the scale development process items 3 – 5 were eliminated and after confirmatory factor analysis an alpha of 0.89 was reported for the two remaining items.

1. Demand for the products/services of your industry has been growing.
2. The investment or marketing opportunities for firms in our industry have been very favorable.
3. The growth/decrease in the sector has been easily predictable. (Dropped in CFA)
4. Market activities of your key competitors have been very hostile. (Dropped in CFA)
5. Market activities of your key competitors have affected the firm in many areas (pricing, marketing, delivery, service, etc.). (Dropped in CFA)

Most studies that include environmental munificence operationalize it as a continuous variable(s) using secondary data. The most common data found were sales growth for the relevant industry. Each study operationalized munificence as the regression slope coefficient of the value of sales growth over a specific number of years. This technique is not relevant for this study for the following reasons: 1) No specific industry/industries are targeted in the data sample, 2) the data sample for this study is young firms that may not have been in business long enough to match the coefficient (i.e. studies often used a 10-year span), and 3) the data sample will consist of private firms that would not appropriately match public firms in secondary databases.

Appendix C – Institutional Review Board Approval

Oklahoma State University Institutional Review Board

Date: Tuesday, August 19, 2008
IRB Application No BU0813
Proposal Title: Stakeholder Orientation and Its Impact on Performance in Small Business

Reviewed and Exempt
Processed as:

Status Recommended by Reviewer(s): Approved Protocol Expires: 8/18/2009

Principal Investigator(s):
Robert J Duesing Margaret White
24 High Dr. 700 N. Greenwood
Warrensburg, MO 64093 Tulsa, OK 74106

The IRB application referenced above has been approved. It is the judgment of the reviewers that the rights and welfare of individuals who may be asked to participate in this study will be respected, and that the research will be conducted in a manner consistent with the IRB requirements as outlined in section 45 CFR 46.

The final versions of any printed recruitment, consent and assent documents bearing the IRB approval stamp are attached to this letter. These are the versions that must be used during the study.

As Principal Investigator, it is your responsibility to do the following:

- 1. Conduct this study exactly as it has been approved. Any modifications to the research protocol must be submitted with the appropriate signatures for IRB approval.
2. Submit a request for continuation if the study extends beyond the approval period of one calendar year. This continuation must receive IRB review and approval before the research can continue.
3. Report any adverse events to the IRB Chair promptly. Adverse events are those which are unanticipated and impact the subjects during the course of this research; and
4. Notify the IRB office in writing when your research project is complete.

Please note that approved protocols are subject to monitoring by the IRB and that the IRB office has the authority to inspect research records associated with this protocol at any time. If you have questions about the IRB procedures or need any assistance from the Board, please contact Beth McTernan in 219 Cordell North (phone: 405-744-5700, beth.mcternan@okstate.edu).

Sincerely,

Handwritten signature of Sheila Kennison
Sheila Kennison, Chair
Institutional Review Board

VITA

Robert J. Duesing

Candidate for the Degree of

Doctor of Philosophy

Dissertation: STAKEHOLDER ORIENTATION AND ITS IMPACT ON
PERFORMANCE IN SMALL BUSINESSES

Major Field: Business

Biographical:

Personal Data:

School

Department of Management
William S. Spears School of Business
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Education:

Ph.D. August 2003 – July 2009, Oklahoma State University
Major Area: Strategic Management and Entrepreneurship
M.S., June 1992 – December 1993, University of Southern California
Major Area: Systems Management
B.B.A., August 1974 – June 1978, University of Cincinnati
Major Area: Management and Marketing

Experience:

University of Central Missouri , Warrensburg, Missouri. Adjunct/Assistant Professor,
Fall 2005 – Spring 2009.
Oklahoma State University, Stillwater, Oklahoma. Graduate Research Assistant, Spring
2005.
Oklahoma State University, Stillwater, Oklahoma. Graduate Teaching Assistant, Fall
2003 – Fall 2004.
University of Central Missouri, Warrensburg, Missouri. Assistant Professor – non-tenure
track, Fall 2000 – Spring 2003.
United States Army. Progressive leadership assignments at various national and
international locations, 1978 – 2000.

Name: Robert J. Duesing

Date of Degree: July, 2009

Institution: Oklahoma State University

Location: Stillwater, Oklahoma

Title of Study: STAKEHOLDER ORIENTATION AND ITS IMPACT ON
PERFORMANCE IN SMALL BUSINESSES

Pages in Study: 155

Candidate for the Degree of Doctor of Philosophy

Major Field: Business

Scope and Method of Study: The purpose of this study was to examine how stakeholder orientation (SO) impacts the performance of small businesses.

Environmental dynamism and munificence were also reviewed specifically looking at organizational context from the perspective of small businesses and stakeholder orientation. Theory of the firm, resource dependency, and stakeholder theory were the theoretical underpinnings for each of the constructs to develop testable hypotheses. The hypotheses were tested using multiple, moderated, and step-wise regression analysis.

Findings and Conclusions: Environmental dynamism was supported as a moderator of three dimensions of stakeholder orientation. No support was found for the direct effect of stakeholder orientation with performance or for the moderation effect of environmental munificence. Customers and employees emerged as significant in a post hoc effort to find a pattern of stakeholder orientation with the strongest relationship to performance. This study extended the generalizability of the stakeholder orientation scale, provided information to small business owners on the effectiveness of resources afforded to various stakeholders, and contributed to the small business literature.

ADVISER'S APPROVAL: Margaret A. White
